

CITY OF SANTA CRUZ  
809 Center Street  
Santa Cruz, California 95060



**JOINT CITY COUNCIL - REDEVELOPMENT AGENCY AND  
PUBLIC FINANCING AUTHORITY AGENDA**

Special Meeting

March 01, 2011

- 4:00 P.M. CITY COUNCIL CLOSED LITIGATION SESSION, COURTYARD  
CONFERENCE ROOM
- 7:00 P.M. JOINT CITY COUNCIL - REDEVELOPMENT AGENCY AND  
PUBLIC FINANCING AUTHORITY GENERAL BUSINESS,  
COUNCIL CHAMBERS

**Written correspondence and telephone calls received after 2:00 p.m. on the Monday immediately preceding a Council meeting may not have time to reach Councilmembers, nor be read by them prior to consideration of an item. Please make any communication to Councilmembers regarding Council meeting items prior to 2:00 p.m. Monday.**

This meeting will not be televised.

Written material for every item listed in the open session is available for review at the Central Branch Library Reference Desk.

Time limits set by Council Policy are guidelines. Unless otherwise specified, procedures for all items, except those approved in one motion on the Consent Agenda, are:

- Oral staff report
- Public comment - 2 minutes each; maximum total time may be established by the Presiding Officer at the beginning of the item
- Council/Agency/Authority deliberation and action

The public has the right to address the City Council on the item appearing on this agenda.

## **Closed Litigation Session**

**4:00PM**

The Presiding Officer will open the City Council Closed Litigation Session in a public meeting in the Courtyard Conference Room, for the purpose of announcing the agenda and allowing members of the public to comment on the listed agenda item; thereafter, the meeting will be closed to the public.

A. Labor Negotiations (Government Code §54956.6).

Lisa Sullivan—Negotiator

- Employee Organizations—
1. SEIU temps
  2. Police Officers' Association
  3. OE3, Mid-Managers
  4. Unrepresented

A report will be given in open session.

## **Joint City Council/Redevelopment Agency and Public Financing Authority**

**7:00 PM**

### **Call to Order**

### **Roll Call**

### **General Business**

1. Approval of Redevelopment Agency Loan. (RDA, FN, Public Financing Authority)

Redevelopment Agency resolution authorizing the issuance and sale of tax allocation bonds and authorizing actions related thereto.

City Council resolution authorizing the issuance and sale of tax allocation bonds and authorizing actions related thereto.

Santa Cruz Public Financing Authority resolution authorizing the issuance and sale of tax allocation bonds and authorizing actions related thereto.

### **Adjournment**

The Redevelopment Agency will adjourn from the special meeting of March 1, 2011 to the next regularly scheduled meeting of March 8, 2011, for a closed litigation session at 1:30 p.m. in the Courtyard Conference Room, followed by open sessions at the approximate hours of 3:00 p.m., 5:00 p.m. and 7:00 p.m. in Council Chambers.

The City Council will adjourn from the special meeting of March 1, 2011 to the next regularly scheduled meeting on March 8, 2011, for a closed litigation session at 1:30 p.m. in the Courtyard Conference Room, followed by open sessions at the approximate hours of 3:00 p.m., 5:00 p.m. and 7:00 p.m. in Council Chambers.

The Public Financing Authority will adjourn in accordance with Public Financing Authority Resolution 2, which states that no meeting is required to be held unless there is business to be conducted.



## CITY COUNCIL/REDEVELOPMENT AGENCY/ PUBLIC FINANCING AUTHORITY AGENDA REPORT

DATE: March 1, 2011

AGENDA OF: March 1, 2011

DEPARTMENT: Finance and Economic Development

SUBJECT: Proposed Issuance of 2011 Tax Allocation Bonds (FN/ED)

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**RECOMMENDATION:** Redevelopment Agency resolution authorizing the issuance and sale of tax allocation bonds and authorizing actions related thereto.

City Council resolution authorizing the issuance and sale of tax allocation bonds and authorizing actions related thereto.

Santa Cruz Public Financing Authority resolution authorizing the issuance and sale of tax allocation bonds and authorizing actions related thereto.

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**BACKGROUND:** On January 10, 2011 the Governor issued a new State budget proposal which included the elimination of redevelopment agencies statewide by July 1, 2011 and the repurposing of all unencumbered non-housing tax increment funds and all future tax increment funds to the State or other taxing entities. In addition, there are indications that a moratorium on the ability of redevelopment agencies to incur new debt could become effective as soon as March 10, 2011.

The ability of the Redevelopment Agency (Agency) to complete the majority of current projects and improvements under the Governor's proposed State budget is severely limited as many of the projects and improvements have not been contractually obligated beyond approval in the annual budget, CIP budget or the Agency's Five-Year Implementation Plan. These public improvements and projects will contribute significantly to the improvement of the Santa Cruz community through the creation of jobs, increased tax growth, development of affordable housing and the elimination of blight and blighting influences in the Merged and Eastside Project Areas. It is likely that completion of existing projects and public improvements will be threatened beyond June 30, 2011. Projects include several large construction projects currently being built largely funded through state and federal funding sources including the Monterey Bay National Marine Sanctuary Exploration Center (funded through federal grants) and Phase II of the Tannery Arts Center (funded largely through federal stimulus funding from the Economic Development Administration). As a result, many projects leveraged with multiple funding sources that include funding from the Agency will be threatened unless the Agency enters into contractual obligations for the completion of the projects.

On February 8, 2011 the City Council and Redevelopment Agency authorized the City Manager and Executive Director of the Redevelopment Agency to execute a Cooperative Agreement through which the Agency will fund and implement certain projects, infrastructure improvements and the development of affordable housing. The Cooperation Agreement was a necessary step by the Agency to document existing and planned projects and improvements currently underway, but it was not a guarantee that the funding necessary to complete the identified projects and improvements would be protected from future actions at the state level.

**DISCUSSION:** Additional information has become available since the February joint City Council/Redevelopment Agency meeting that indicates that a state budget bill which includes the elimination of redevelopment agencies and a moratorium on issuing new debt may become effective as early as March 10, 2011. In light of this new information, it is prudent for the Agency to consider selling bonds in order to complete all of the planned and committed projects underway.

The Agency has the ability to sell bonds secured by the non-housing tax increment sufficient to fund between \$25 million and \$30 million in project costs. The range between the \$25 and \$30 million figures is determined primarily by whether the bonds are tax exempt or taxable, and the length of the financing term. For housing set-aside, the Agency has the ability to sell bonds sufficient to fund between \$7.5 and \$12 million in project costs. These bonds would be taxable. The difference in the range depends on the financing term.

Staff is recommending that the City Council, Agency Board and Santa Cruz Public Finance Authority authorize the issuance and sale of 2011 Tax Allocation Bonds for the purposes of completing planned and currently underway projects and improvements, consistent with California Health and Safety Code Sections 33220, 33421.1, 33445, and 33490. No other reasonable means of financing the identified projects and improvements are available to the community or the Agency. The 2011 Tax Allocation Bonds would be sold either solely to JP Morgan/Chase through a private placement, or sold through a public bond sale negotiated by the Agency financial advisor, Northcross Hill & Ach, and the City's Finance Director with bond underwriters. The authorizing resolutions for the Bonds set a maximum par value of \$32 million for the non-housing set-aside tax allocation bonds and \$14 million for the housing set-aside bonds.

The 2011 Bonds will be secured solely by tax increment received by the Redevelopment Agency for both non-housing purposes and affordable housing purposes. There is no obligation on the part of the City's General Fund for the proposed bonds.

***Potential Private Placement with JP Morgan/Chase.*** The Agency has received a commitment letter from JP Morgan/Chase to purchase both the non-housing and housing set-aside bonds, subject to a final maturity of 13 years (2024) for the housing bonds and 15 years (2026) for the non-housing bonds. The estimated interest rate from JP Morgan is in the 4.5% to 5% range for tax exempt bonds and in the 6.5% to 6.8% range for taxable bonds. Both interest rates are significantly below current interests in the municipal bond market. While the Agency would pay a lesser interest rate and net more proceeds with tax-exempt bonds, the Agency would have greater flexibility in spending taxable bond proceeds. Therefore, staff proposes that a mix of tax-exempt and taxable bonds be issued for non-housing purposes and proposes that taxable bonds be issued for housing purposes.

The Agency has the legal ability to issue bonds with a final maturity of 2032. A longer amortization period results in more net proceeds for the Agency, but a significantly higher interest rate. Under the JP Morgan/Chase proposal, the Agency would net approximately \$25 million for non-housing project costs and about \$7.5 million for housing projects.

Because of the Governor's goal of signing legislation eliminating redevelopment as early as March 10<sup>th</sup>, the ability to close a transaction quickly is very important. While the JP Morgan/Chase proposal delivers less funding for projects than a potential bond sale, it can close much more quickly, making it very likely that the Agency can secure this funding prior to March 10<sup>th</sup>. Additionally, the combined annual debt service under the JP Morgan/Chase proposal does not encumber the full Agency available annual tax increment, providing maximum flexibility for administrative expenses and unforeseen developments at the state level. A public bond sale requires the printing of a preliminary official statement and the pre-marketing of bonds by the bond underwriters. These additional tasks can add a week to the time it would take to close a transaction and secure funding.

Because of the ability to close quickly, and because of the below market interest rates, the Agency's financial advisor recommends that the Agency make closing a transaction with JP Morgan/Chase its top priority, with a public sale of bonds an alternative only if problems arise with the JP Morgan/Chase private placement or if it is determined that additional time can be allowed for the bond closing.

***Santa Cruz Public Financing Authority.*** In the event a portion of the non-housing bonds is issued on a tax-exempt basis, such bonds can only be sold to JP Morgan/Chase or to an underwriting firm on a negotiated basis through the Santa Cruz Public Financing Authority due to provisions in the joint powers law which authorize such negotiated bond sales. Accordingly, staff recommends that the Board of Directors of the Public Financing Authority adopt a resolution authorizing the purchase and sale of any such bonds and approving related financing documents.

***Preliminary Official Statement.*** The attached Preliminary Official Statement has been prepared by the City's bond counsel, Jones Hall, A Professional Law Corporation, and staff has reviewed and approved for transmittal to the City Council. The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2011 Tax Allocation bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2011 Tax Allocation Bonds. If the Agency Board concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the 2011 Tax Allocation Bonds, it must adopt the resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

The Securities and Exchange Commission (the "SEC"), the agency with regulatory authority over the City's compliance with the federal securities laws, has issued guidance as to the duties of the City Council with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996)

(the “Release”), the SEC stated that, if a member of the Agency Board has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2011 Tax Allocation Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC stated that the steps that a member of the Agency Board could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

**FISCAL IMPACT:** The proposed issuance of the 2011 Tax Allocation Bonds will result in additional annual debt service estimated at \$3.175 million per year secured by the non-housing tax increment and \$1.45 million per year secured by the housing set-aside tax increment. The 2011 Bonds will be secured solely by tax increment received by the Agency for both non-housing purposes and affordable housing purposes. There is no obligation on the part of the City’s General Fund for the proposed bonds.

Because the exact changes to the Agency’s FY11 budget are dependent upon the type of bonds sold and the terms to be negotiated, staff will return to the City Council for specific proposed changes to the budget.

The Agency has the option for unwinding the bond issuance in the unlikely event that changes in the bond market make it advantageous to the Agency to refinance the bonds or for other unforeseen events at the state level. The cost would be equal to one year of interest on the bonds.

Submitted by:  
Jack Dilles  
Finance Director

Submitted by:  
Bonnie Lipscomb  
Executive Director

Approved by:  
Martin Bernal  
City Manager

**ATTACHMENTS:**

Redevelopment Agency Resolution Authorizing Issuance of Tax Allocation Bonds  
City Resolution Authorizing Issuance of Tax Allocation Bonds  
Public Financing Authority Resolution Authorizing Issuance of Tax Allocation Bonds  
Preliminary Official Statement  
First Supplement to Indenture of Trust  
Bond Purchase Agreement

**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**

§ \_\_\_\_\_  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**2011 Taxable Tax Allocation Bonds**

**PURCHASE CONTRACT**

\_\_\_\_\_, 2011

Redevelopment Agency of the City of Santa Cruz  
 809 Center Street, Room 101  
 Santa Cruz, California 95060

Ladies and Gentlemen:

The undersigned (the "**Underwriter**") offers to enter into this Purchase Contract (this "**Purchase Contract**") with the City of Santa Cruz Public Financing Authority (the "**Authority**") and the Redevelopment Agency of the City of Santa Cruz (the "**Agency**"), which will be binding upon the Authority, the Agency and the Underwriter upon the acceptance hereof by the Authority and the Agency. This offer is made subject to its acceptance by the Authority and the Agency by execution of this Purchase Contract and its delivery to the Underwriter on or before 5:00 p.m., California time, on the date hereof. All terms used herein and not otherwise defined shall have the respective meanings given to such terms in the Indenture (as hereinafter defined).

**Section 1. Purchase and Sale.** Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase from the Authority for offering to the public, and the Authority hereby agrees to sell to the Underwriter for such purpose, all (but not less than all) of the above-referenced bonds (the "**Bonds**"), at a purchase price equal to \$\_\_\_\_\_ (being the aggregate principal amount thereof *less* an underwriter's discount of \$\_\_\_\_\_ and *less* an original issue discount of \$\_\_\_\_\_).

The Bonds are to be purchased by the Authority from the Agency pursuant hereto for resale and delivery to the Underwriter concurrently with the purchase of the Bonds by the Underwriter from the Authority; provided that the obligation of the Authority to purchase the Bonds from the Agency shall be solely with moneys provided by the Underwriter.

**Section 2. Description of the Bonds; Purpose of the Bonds; Security for the Bonds.**



*Authority for the Bonds.* The Bonds are being issued under the following:

(i) the California Community Redevelopment Law, constituting Part 1, Division 24 commencing with Section 33000) of the California Health and Safety Code (the “**Redevelopment Law**”),

(ii) resolutions of the City Council and the Agency adopted on \_\_\_\_\_, 2011,

(iii) an Indenture of Trust, dated as of October 1, 2004, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2011 (as amended and supplemented, the “**Indenture**”), each by and between the Agency and The Bank of New York Mellon Trust Company, N.A. (the “**Trustee**”).

The Bonds shall be as described in the Indenture and the Official Statement related to the Bonds (which, together with all exhibits and appendices included therein or attached thereto and such amendments or supplements thereto which shall be approved by the Underwriter, is hereinafter called the “**Official Statement**”).

*Purpose of the Bonds.* The Bonds are being issued to (i) finance redevelopment activities of benefit to Merged Earthquake Recovery and Reconstruction Project Area (the “**Project Area**”), (ii) fund a debt service reserve fund, (iii) fund capitalized interest on the Bonds and (iv) pay the costs of issuing the Bonds.

*Security for the Bonds.* The Bonds are special obligations of the Agency and are payable exclusively from “**Tax Revenues,**” which primarily consist of tax increment allocated to the Agency from the Project Area and from amounts on deposit in certain funds and accounts established pursuant to the Indenture.

The Bonds are payable from and secured by a pledge of Tax Revenues on a parity with the Agency’s outstanding 2004 Tax Allocation Bonds (the “**Parity Bonds**”). Based on the amount of proceeds used to finance low and moderate income housing projects, 15.82% of each debt service payment on the Parity Bonds may be repaid from tax increment generated in the Project Area that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund (“**Housing Set-Aside**”) and \_\_\_\_\_% of each debt service payment on the Bonds may be repaid from Housing Set-Aside.

In addition, the Agency is authorized to incur additional debt secured by Tax Revenues on a parity with the Bonds and the Parity Bonds.

**Section 3. Public Offering.** The Underwriter agrees to make a bona fide public offering of all the Bonds initially at the public offering prices (or yields) set forth on Appendix A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth on Appendix A. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices.

**Section 4. Delivery of Official Statement.** The Agency has delivered or caused to be delivered to the Underwriter prior to the execution of this Purchase Contract, copies of the Preliminary Official Statement, dated as of \_\_\_\_\_, 2011, relating to the Bonds (the “**Preliminary**”

**Official Statement**”). Such Preliminary Official Statement is the official statement deemed final by the Agency for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the “**Rule**”) and approved for distribution by resolution of the Agency. The Agency shall have executed and delivered to the Underwriter a certification to such effect in the form attached hereto as Appendix B.

Within seven (7) business days from the date hereof, the Agency shall deliver to the Underwriter a final Official Statement, executed on behalf of the Agency by an authorized representative of the Agency and dated the date hereof, which shall include information permitted to be omitted by paragraph (b)(1) of the Rule and with such other amendments or supplements as shall have been approved by the Agency and the Underwriter. The Agency also agrees to delivery to the Underwriter, at the Agency's sole cost and at such address as the Underwriter shall specify, as many copies of the Official Statement as the Underwriter shall reasonably request as necessary to comply with paragraph (b)(4) of the Rule and with Rule G-32 and all other applicable rules of the Municipal Securities Rulemaking Board.

The Agency will undertake, pursuant to the Indenture and a continuing disclosure certificate (the “**Continuing Disclosure Certificate**”), to provide certain annual financial information and notices of the occurrence of certain events, if material. The form of the Continuing Disclosure Certificate is appended to the Official Statement.

**Section 5. The Closing.** At 8:00 a.m., California time, on \_\_\_\_\_, 2011 (the “**Closing Date**”), or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the Agency and the Underwriter, the Authority and the Agency will deliver (i) the Bonds in definitive form (one bond for each annual maturity) to the Underwriter at The Depository Trust Company (“**DTC**”) in New York, New York, or such other location as may be specified by the Underwriter, with CUSIP identification numbers printed thereon, in fully registered form and registered in the name of Cede & Co., and (ii) the closing documents hereinafter mentioned at the offices of Jones Hall, A Professional Law Corporation, San Francisco, California (“**Bond Counsel**”), or another place to be mutually agreed upon by the Agency and the Underwriter. The Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof by federal funds wire payable to the order of the Trustee on behalf of the Agency. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the “**Closing.**”

**Section 6. Agency Representations, Warranties and Covenants.** The Agency represents, warrants and covenants to the Underwriter that:

(a) *Due Organization and Existence of Agency.* The Agency is a public body corporate and politic, organized and existing under the laws of the State, including the Redevelopment Law, with full right, power and authority to execute, deliver and perform its obligations under the Indenture, the Continuing Disclosure Certificate and this Purchase Contract (the “**Agency Documents**”) and to carry out and consummate the transactions contemplated by the Agency Documents and the Official Statement.

(b) *Due Authorization and Approval.* By all necessary official action of the Agency, the Agency has duly authorized and approved the execution and delivery of, and the performance by the Agency of the obligations contained in, the Agency Documents and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and

delivered, the Agency Documents will constitute the legally valid and binding obligations of the Agency enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally. The Agency has complied, and will at the Closing be in compliance in all respects, with the terms of the Agency Documents, provided that no representation is made with respect to compliance with the securities or "Blue Sky" laws of the various states of the United States.

(c) *Official Statement Accurate and Complete.* The Preliminary Official Statement was as of its date, and the final Official Statement is, and at all times subsequent to the date of the final Official Statement up to and including the Closing will be, true and correct in all material respects, and the Preliminary Official Statement and the final Official Statement contain, and up to and including the Closing will contain, no misstatement of any material fact and do not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

(d) *Underwriter's Consent to Amendments and Supplements to Official Statement.* The Agency will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The Agency will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(e) *No Breach or Default.* As of the time of acceptance hereof and as of the time of the Closing, except as otherwise disclosed in the Official Statement, the Agency is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Agency is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument; and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the Agency Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Agency (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Agency Documents.

(f) *No Litigation.* As of the time of acceptance hereof and the Closing, except as disclosed in the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or threatened (i) in any way questioning the corporate existence of the Agency or the titles of the officers of the Agency to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds or the Agency Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Bonds from taxation or contesting the powers of the Agency and its authority to pledge the Tax Revenues; (iii) which may result in any material adverse change relating to the Agency; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the final Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the final Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(g) *Excess Surplus.* The Agency's Low and Moderate Income Housing Fund established pursuant to Section 33334.3 of the Redevelopment Law does not on the date hereof, and will not on the date of the Closing, contain an "excess surplus" (within the meaning of Section 33334.12 of the Redevelopment Law) that would cause the Agency to be subject to the sanctions contained in Section 33334.12(e)(1) of the Redevelopment Law.

(h) *Court Order.* The Agency is not subject to a court order rendered pursuant to Section 33080.8 of the Redevelopment Law prohibiting the Agency from among other things, issuing, selling, offering for sale, or delivering bonds or other evidences of indebtedness.

(i) *Arbitrage Certificate.* The Agency has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certificates may not be relied upon.

(j) *Prior Liens on the Tax Revenues; Bonded Indebtedness.* As of the date hereof, the Agency has not previously pledged the Tax Revenues as security for any obligation other than the Parity Bonds. The Agency has complied with the "Parity Debt" provisions of the Indenture in connection with execution and delivery of the Bonds. As of the date hereof, there will be no "bonded indebtedness" of the Agency outstanding payable from tax increment derived from the Project Area which is counted towards the "bonded indebtedness limit" of the Agency established pursuant to Section 33334.1 of the Redevelopment Law other than the Parity Bonds.

(k) *Compliance With Rule 15c2-12.* The Preliminary Official Statement heretofore delivered to the Underwriter is deemed final by the Agency as of its date and as of the date hereof, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The Agency hereby covenants and

agrees that, within seven business days from the date hereof, the Agency shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and rules of the Municipal Securities Rulemaking Board. The Agency has not failed to comply with any material provision of a continuing disclosure undertaking in the past five years.

(l) *Additional Deposits to Low and Moderate Income Housing Fund.* In order that the Agency shall not become subject to the additional deposits into the Low and Moderate Income Housing Fund mandated by Section 33334.2(k)(3) or (4) of the Redevelopment Law or Section 33690(c) or Section 33690.5(c) of the Redevelopment Law, the Agency shall pay or cause to be paid timely to the Santa Cruz County Auditor-Controller the amounts required to be paid by Section 33690 and Section 33690.5 of the Redevelopment Law and, if applicable, shall repay timely to the Low and Moderate Income Housing Fund any deposit suspended or amount borrowed from the Low and Moderate Income Housing Fund for the purpose of making such payments to the Santa Cruz County Auditor Controller.

(m) *Filing Requirements.* As of the time of acceptance hereof and of the date of the Closing, except as otherwise disclosed in the Official Statement, the Agency has made all the filings required by Section 33080, Section 33334.6 (if applicable) and Section 33675 of the Redevelopment Law.

(n) *No Use for City Hall.* In accordance with Section 33445(g) of the Redevelopment Law, no portion of the proceeds of the Bonds will be used to pay for, directly or indirectly, property of any sort to be used for a city hall, unless the Agency used proceeds of the such refunded obligations issued prior to January 1, 1994 for such purpose, as evidenced by documents approved at the time of the issuance, or otherwise as permitted under such section.

(o) *Pass-Through Liabilities.* For purposes of Health and Safety Code Section 33684 and related sections, the Agency has not been listed on the most recent Controller's report pursuant to subparagraph (B) or (E) of Section 33684(g)(1) related to reporting deficiencies outstanding pass-through liabilities.

(p) *Supplemental Educational Revenue Augmentation Fund.* The Agency has paid all amounts due and payable as of the date hereof pursuant to Health and Safety Code Sections 33690 and 33690.5 to the Supplemental Educational Revenue Augmentation Fund or otherwise and has budgeted sufficient existing resources to pay the amount payable for fiscal year 2010-11.

(q) *Relationship to Underwriter.* The Agency acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Agreement is an arm's-length commercial transaction among the Authority, the Agency and the Underwriter, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as the agent or fiduciary of the Agency, (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the Agency with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the Agency on

other matters) and the Underwriter has no obligation to the Agency with respect to the offering contemplated hereby except the obligations expressly set forth in this Agreement and (iv) the Agency has consulted its own legal, financial and other advisors to the extent it has deemed appropriate in connection with the offering of the Bonds, including but not limited to with respect to matters relating to the timing of the sale of the Bonds, the size of the Bonds, the potential impacts of the sale of the Bonds on the Agency's financial condition and the potential financial and legal consequences on the Agency for selling the Bonds in light of the 2011-12 budget proposal made by the Governor of California.

**Section 7. Authority Representations, Warranties and Covenants.** The Authority represents, warrants and covenants to the Underwriter that:

(a) *Due Organization and Existence of Authority.* The Authority is a joint powers authority, duly organized and existing, and authorized to transact business and exercise powers under and pursuant to the provisions of the laws of the State of California and has, and on Closing date will have, full legal right, power and authority to enter into this Purchase Contract, and to carry out and to consummate the transactions contemplated by this Purchase Contract.

(b) *Official Statement Accurate and Complete.* The information relating to the Authority contained in the Preliminary Official Statement and the final Official Statement is correct in all material respects and does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

(c) *Purchase and Sale of Bonds.* The Bonds will be purchased and sold by the Authority pursuant to the Mark-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5, Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the "JPA Act").

(d) *Compliance with Law.* The Authority has complied, and will on the Closing Date be in compliance, in all respects, with the JPA Act and all other applicable laws of the State of California (and it is understood that the Authority is not responsible for compliance with or the consequences of failure to comply with applicable "Blue Sky" laws).

(e) *No Litigation.* Except as otherwise disclosed in the Official Statement and to the best knowledge of such signing officer after due inquiry, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental Authority or body, pending or threatened against the Authority, challenging the creation, organization or existence of the Authority, or the validity of this Purchase Contract or contesting the authority of the Authority to enter into or perform its obligations under this Purchase Contract.

(f) *Relationship to Underwriter.* The Authority acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction among the Authority, the Agency and the Underwriter,

(ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as the agent or fiduciary of the Authority, (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the Authority with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the Authority on other matters) and the Underwriter has no obligation to the Authority with respect to the offering contemplated hereby except the obligations expressly set forth in this Purchase Contract and (iv) the Authority has consulted its own legal, financial and other advisors to the extent it has deemed appropriate.

**Section 8. Closing Conditions.** The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the Agency of their respective obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Purchase Contract to purchase and pay for the Bonds shall be subject to the following additional conditions:

(a) *Bring-Down Representation.* The representations, warranties and covenants of the Authority and the Agency contained herein shall be true, complete and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) *Executed Agreements and Performance Thereunder.* At the time of the Closing (i) the Agency Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter and (ii) there shall be in full force and effect such resolutions of the Agency, the City of Santa Cruz (the "City") and the Authority (the "**Resolutions**") as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated by this Purchase Contract, the Official Statement and the Agency Documents.

(c) *Closing Documents.* At or prior to the Closing, the Underwriter shall receive each of the documents identified in Section 9.

**Section 9. Closing Documents.** In addition to the other conditions to the Underwriter's obligations under this Purchase Contract to purchase and pay for the Bonds, at or before the Closing the Underwriter shall receive each of the following documents, provided that the actual payment for the Bonds by the Underwriter and the acceptance of delivery thereof shall be conclusive evidence that the requirements of this Section 9 shall have been satisfied or waived by the Underwriter.

(a) *Bond Counsel Opinions.* An approving opinion of Bond Counsel for each series of Bonds, dated the date of the Closing and substantially in the form appended to the Official Statement, together with a letter from Bond Counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(b) *Supplemental Opinion.* A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(1) The Agency has full power and authority to execute, deliver and perform its obligations under this Purchase Contract, and this Purchase Contract has been duly authorized, executed and delivered by the Agency and constitutes the valid, legal and binding agreement of the Agency enforceable in accordance with its terms.

(2) The statements contained in the Official Statement pertaining to the Bonds under the captions "THE 2011 BONDS," "SECURITY FOR THE 2011 BONDS," and "TAX MATTERS," and in APPENDIX B - "Summary of Certain Provisions of the Indenture" and APPENDIX D - "Form of Bond Counsel Opinion," insofar as such statements purport to summarize certain provisions of the Bonds, the Indenture and the final approving opinions of Bond Counsel, fairly and accurately summarize the information presented therein.

(3) The Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

(c) *Agency Counsel Opinion.* An opinion of Counsel to the Agency, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(1) The Agency has full power and authority to execute, deliver and perform its obligations under the Agency Documents, and the Agency Documents have been duly authorized, executed and delivered by the Agency and constitute the valid, legal and binding agreements of the Agency enforceable in accordance with their respective terms.

(2) The Agency is a public body corporate and politic duly organized and validly existing under the laws of the State of California.

(3) The resolution of the Agency approving and authorizing the execution and delivery of the Agency Documents, and approving the Official Statement, has been duly adopted and is in full force and effect and has not been modified, amended or rescinded.

(4) The statements contained in the Official Statement under the captions "THE AGENCY AND THE PROJECT AREA," and "-NO LITIGATION," fairly and accurately summarize the information presented therein; provided that Agency Counsel need not express any opinion with respect to any financial or statistical information contained therein.



(5) Except as otherwise disclosed in the Official Statement and to the best knowledge of such counsel after due inquiry, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or threatened against the Agency, (a) challenging the creation, organization or existence of the Agency, or the validity of the Agency Documents, or (b) seeking to restrain or enjoin the repayment of the Bonds, or (c) in any way contesting or affecting the validity of the Agency Documents, or (d) contesting the authority of the Agency to enter into or perform its obligations under any of the Agency Documents, or (e) which, in any manner, questions the right of the Agency to use the Tax Revenues for repayment of the Bonds, or (f) affects in any manner the right or ability of the Agency to collect or pledge the Tax Revenues.

(d) *Authority Counsel Opinion.* An opinion of counsel to the Authority, dated the Closing Date and addressed to the Underwriter, to the effect that:

(1) The Authority is a public body, corporate and politic, organized and existing under the laws of the State, including the JPA Act.

(2) This Purchase Contract has been duly authorized, executed and delivered by the Authority and constitutes the valid, legal and binding agreement of the Authority enforceable in accordance with its terms.

(3) The resolution of the Authority approving and authorizing the execution and delivery of this Purchase Contract (the "**Authority Resolution**") was duly adopted at a meeting of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Authority Resolution is in full force and effect and has not been modified, amended or rescinded

(4) To the best of such counsel's knowledge after due investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body pending or threatened against or affecting the Authority to restrain or enjoin the Authority's participation in, or in any way contesting the existence of the Authority or the powers of the Authority with respect to the transactions contemplated by this Purchase Contract.

(e) *City Attorney Opinion.* An opinion of the City Attorney, dated the Closing Date and addressed to the City and the Underwriter, in form and substance acceptable to Bond Counsel and the Underwriter, substantially to the following effect:

(1) The City is a chartered city and municipal corporation duly organized and validly existing under the laws and the Constitution of the State of California.

(2) The resolution of the City approving and authorizing issuance of the Bonds (the "**City Resolution**") is in full force and effect and has not been modified, amended or rescinded.

(f) *Trustee Counsel Opinion.* The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(1) The Trustee is a national banking association, duly organized and validly existing under the laws of the United States of America, having full power to enter into, accept and administer the trusts created under the Indenture.

(2) The Indenture has been duly authorized, executed and delivered by the Trustee, has been duly authorized, executed and delivered by the Trustee, and constitutes the legal, valid and binding obligation of the Trustee, enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(3) Except as may be required under Blue Sky or other securities laws of any state, no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Indenture, or the consummation of the transactions contemplated by the Indenture.

(g) *Disclosure Counsel Letter.* A letter from Jones Hall, A Professional Law Corporation, as disclosure counsel to the Agency ("**Disclosure Counsel**"), dated the Closing Date, and addressed to the Underwriter, to the effect that during the course of serving as Disclosure Counsel in connection with the execution and delivery of the Bonds and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, no information came to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the Bonds that would lead them to believe that the Official Statement (excluding therefrom the financial statements, any financial or statistical data, or forecasts, charts, numbers, estimates, projections, assumptions or expressions of opinion included in the Official Statement, information relating to DTC and its book-entry only system and the appendices to the Official Statement as to which no opinion need be expressed), as of the date thereof, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(h) *Agency Certificate.* A certificate of the Agency, dated the date of the Closing, signed on behalf of the Agency by the Executive Director or other duly authorized officer of the Agency to the effect that:

(1) The representations, warranties and covenants of the Agency contained in this Purchase Contract are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the Agency has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the Agency at or prior to the date of the Closing.

(2) No event affecting the Agency has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(i) *Authority Certificate.* A certificate of the Authority, dated the date of the Closing, signed on behalf of the Authority by the Executive Director or other duly authorized officer of the Authority to the effect that:

(1) The representations, warranties and covenants of the Authority contained herein are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the Authority has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the Authority at or prior to the date of the Closing.

(2) No event affecting the Authority has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) *Trustee's Certificate.* A certificate of the Trustee, dated the date of Closing, in form and substance acceptable to counsel for the Underwriter, to the following effect:

(1) The Trustee is duly organized and existing as a banking corporation in good standing under the laws of the State of California, having the full power and authority to enter into and perform its duties under the Indenture.

(2) The Trustee is duly authorized to enter into the Indenture.

(3) To its best knowledge after due inquiry, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body that has been served on the Trustee or threatened against the Trustee which in the reasonable judgment of the Trustee, would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Indenture or contesting the powers of the Trustee or its authority to enter into and perform its obligation under the Indenture.

(k) *Documents.* An original executed copy of each of the Agency Documents and a certified copy of each of the Resolutions.

(l) *Ratings.* Evidence that the Bonds have been given the rating shown in the Official Statement.

(m) *Indenture.* Evidence of compliance with the parity debt provisions of the Indenture.

(n) *Additional Documents.* Such additional certificates, instruments and other documents as Bond Counsel, the Agency or the Underwriter may reasonably deem necessary.

If the Agency or the Authority shall be unable to satisfy the conditions contained in this Purchase Contract, if the Agency shall determine in good faith that legislation has been introduced or proposals made by the Governor of the State which if enacted and effective would impose additional limitations or burdens on the Agency or the City by reason of the issuance of the Bonds or which purport to prohibit the issuance of the Bonds, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the Agency or the Authority shall be under further obligation hereunder, except as further set forth in Section 11 hereof.

**Section 10. Termination Events.** The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by notification to the Agency and the Authority if at any time between the date hereof and prior to the Closing:

(a) any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(b) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the Agency, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(c) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States

shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(d) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(e) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the Bonds; or

(f) a general banking moratorium shall have been established by federal or State authorities; or

(g) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak of hostilities or a national or international calamity or crisis, or there has occurred any escalation of existing hostilities, calamity or crisis, financial or otherwise, the effect of which on the financial markets of the United States being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds; or

(h) any rating of the Bonds shall have been downgraded, suspended or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Bonds; or

(i) the commencement of any action, suit or proceeding described in Section 6(f) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(j) there shall be in force a general suspension of trading on the New York Stock Exchange.

**Section 11. Expenses.** The Underwriter shall be under no obligation to pay and the Agency shall pay or cause to be paid the expenses incident to the performance of the obligations of the Agency and the Authority hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Agency Documents and the cost of preparing, printing, issuing and delivering the definitive Bonds, (b) the fees and disbursements of any counsel, financial advisors, accountants or other experts or consultants retained by the Agency; (c) the fees and

disbursements of Bond Counsel and Disclosure Counsel; (d) the cost of printing the Preliminary Official Statement and any supplements and amendments thereto and the cost of printing the Official Statement, including the requisite number of copies thereof for distribution by the Underwriter; (e) charges of rating agencies for the rating of the Bonds; and (f) the premium payable to the Insurer in consideration of the issuance by the Insurer of the Policy.

The Underwriter shall pay and the Agency shall be under no obligation to pay all expenses incurred by it in connection with the public offering and distribution of the Bonds, the fees and expenses of counsel to the Underwriter, the fees of the California Debt and Investment Advisory Commission and the CUSIP Service Bureau charge for the assignment of CUSIP numbers to the Bonds.

**Section 12. Notice.** Any notice or other communication to be given to the Agency and the Authority under this Purchase Contract may be given by delivering the same in writing to such entity at the address set forth above. Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to:

[to come]

**Section 13. Entire Agreement.** This Purchase Contract, when accepted by the Agency and the Authority, shall constitute the entire agreement between the Agency, the Authority and the Underwriter and is made solely for the benefit of the Agency, the Authority and the Underwriter (including the successors or assigns of any Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All the Agency's and the Authority's representations, warranties and covenants in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter.

**Section 14. Counterparts.** This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

**Section 15. Severability.** In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

**Section 16. State of California Law Governs.** The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State.

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**Section 17. No Assignment.** The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter, the Authority or the Agency without the prior written consent of the other parties hereto.

[UNDERWRITER]

By: \_\_\_\_\_  
Authorized Representative

Accepted as of the date first stated above:

CITY OF SANTA CRUZ PUBLIC  
FINANCING AUTHORITY

BY: \_\_\_\_\_

Time of Execution: \_\_\_\_\_

REDEVELOPMENT AGENCY OF THE  
CITY OF SANTA CRUZ

By: \_\_\_\_\_

Time of Execution: \_\_\_\_\_

**APPENDIX A**  
**MATURITY SCHEDULE**

Maturity Date <u>(October 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>Price</u>	Priced to First <u>Par Call Date</u>
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Total

**Optional redemption provisions:**



APPENDIX B

REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ

§ \_\_\_\_\_

Merged Earthquake Recovery and Reconstruction Project Area  
2011 Taxable Tax Allocation Bonds,

RULE 15c2-12 CERTIFICATE

The undersigned hereby certifies and represents to Stone & Youngberg LLC (the "Underwriter") that he or she is a duly appointed and acting officer of the Redevelopment Agency of the City of Santa Cruz (the "Agency"), and as such is to execute and deliver this Certificate and further hereby certify and reconfirm on behalf of the Agency to the Underwriter as follows:

(1) This Certificate is delivered in connection with the offering and sale of the above-captioned bonds (the "Bonds"), in order to enable the underwriters of the Bonds to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement setting forth information concerning the Bonds and the issuer of the Bonds (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters, all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule.

IN WITNESS WHEREOF, we have hereunto set our hands as of \_\_\_\_\_, 2011.

REDEVELOPMENT AGENCY OF THE  
CITY OF SANTA CRUZ

By \_\_\_\_\_  
Authorized Representative

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2011****NEW ISSUE- FULL BOOK ENTRY****RATINGS: S&P: \_\_\_\_\_**

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the 2011 Bonds is exempt from California personal income taxes. See "TAX MATTERS".*

\$ \_\_\_\_\_ \*

**Redevelopment Agency of the City of Santa Cruz  
Merged Earthquake Recovery and Reconstruction Project Area  
2011 Taxable Tax Allocation Bonds**

**Dated: Date of Delivery****Due: October 1, as shown below**

The above-captioned bonds (the "2011 Bonds") are being issued by the Redevelopment Agency of the City of Santa Cruz (the "Agency") pursuant to the California Community Redevelopment Law, constituting Part 1, Division 24 (commencing with Section 33000) of the California Health and Safety Code (the "Redevelopment Law") and an Indenture of Trust, dated as of October 1, 2004, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2011 (as amended and supplemented, the "Indenture").

The 2011 Bonds are being issued to (i) finance redevelopment activities of benefit to Merged Earthquake Recovery and Reconstruction Project Area (the "Project Area"), (ii) fund a debt service reserve fund, (iii) fund capitalized interest on the 2011 Bonds through \_\_\_\_\_ and (iv) pay the costs of issuing the 2011 Bonds.

The 2011 Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of certificates representing their ownership interest in the 2011 Bonds. Interest on the 2011 Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2011 by The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee"), to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the 2011 Bonds.

*The 2011 Bonds are subject to optional and mandatory redemption prior to their maturity under certain conditions described in this Official Statement.*

The 2011 Bonds are special obligations of the Agency and are payable from Tax Revenues (as defined in this Official Statement) 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 2011 Bonds. See "SECURITY FOR THE BONDS." The receipt of Tax Revenues is subject to certain risks and limitations. See "RISK FACTORS" and "LIMITATIONS ON TAX REVENUES".

The 2011 Bonds are payable from and secured by a pledge of Tax Revenues on a parity with the Agency's outstanding 2004 Tax Allocation Bonds (the "2004 Bonds"). In addition, the Agency is authorized by the Indenture to incur additional obligations payable from Tax Revenues on a parity with the 2004 Bonds and the 2011 Bonds ("Parity Debt"). See "SECURITY FOR THE BONDS – Issuance of Additional Debt". Based on the amount of proceeds used to finance low and moderate income housing projects, 15.82% of each debt service payment on the 2004 Bonds may be repaid from tax increment generated in the Project Area that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund ("Housing Set-Aside") and \_\_\_\_\_% of each debt service payment on the 2011 Bonds may be repaid from Housing Set-Aside.

**NEITHER THE 2011 BONDS NOR THE AGENCY'S OBLIGATIONS UNDER THE INDENTURE ARE A DEBT OF THE CITY OF SANTA CRUZ (THE "CITY"), THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AGENCY) AND NONE OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AGENCY) IS LIABLE FOR THE 2011 BONDS. THE 2011 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE CITY COUNCIL, THE AGENCY OR ANY PERSONS EXECUTING THE 2011 BONDS ARE LIABLE PERSONALLY ON THE 2011 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.**

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2011 Bonds. Investors should review the entire Official Statement before making any investment decision.

The following firm, serving as financial advisor to the Agency, has structured this issue.

| NORTH CROSS | HILL | ACH |  
*Financial Advisors to Public Agencies*

**MATURITY SCHEDULE  
(see inside cover)**

*The 2011 Bonds are offered when, as and if delivered and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also serving as Disclosure Counsel. Certain legal matters will be passed upon for the Agency by the City Attorney, acting as Agency general counsel, as Agency Counsel. It is anticipated that the 2011 Bonds will be available for delivery to DTC on or about \_\_\_\_\_, 2011.*

Dated: \_\_\_\_\_, 2011

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\*Preliminary; subject to change.

[UNDERWRITER LOGO]

## MATURITY SCHEDULE

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>CUSIP:</u> <u>( )</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>or Yield</u>	<u>CUSIP:</u> <u>( )</u>
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\$ \_\_\_\_\_ % Term Bonds due October 1, \_\_\_\_\_ Price: \_\_\_\_%; CUSIP \_\_\_\_\_

† Copyright 2011, American Bankers Association. CUSIP data are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the Agency nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

\* Preliminary; subject to change

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the offer and sale of the 2011 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2011 Bonds.

**Estimates and Forecasts.** Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Agency in any way, regardless of the level of optimism communicated in the information. The Agency is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AGENCY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the Agency to give any information or to make any representations in connection with the offer or sale of the 2011 Bonds other than those contained in this Official Statement and if given or made, such other information or representation must not be relied upon as having been authorized by the Agency or the Underwriter. 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 2011 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

**Stabilization of Prices.** In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the 2011 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 Underwriter may offer and sell the 2011 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 Underwriter.

THE 2011 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2011 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City of Santa Cruz maintains a website. However, the information maintained on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2011 Bonds.

# REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ

## MEMBERS OF THE AGENCY

Ryan Coonerty, *Chair*  
Don Lane, *Vice Chair*  
Katherine Beiers, *Member*  
Hilary Bryant, *Member*  
Tony Madrigal, *Member*  
Lynn Robinson, *Member*  
David Terrazas, *Member*

## CITY/AGENCY STAFF

Martin Bernal, *City Manager/City Clerk*  
Jack Dilles, *Director of Finance*  
John G. Barisone, *City Attorney*  
Bonnie Lipscomb, *Executive Director,*  
*Redevelopment Agency*

## SPECIAL SERVICES

### **Financial Advisor**

Northcross, Hill & Ach, Inc.  
*San Rafael, California*

### **Bond Counsel and Disclosure Counsel**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

### **Trustee**

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

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- APPENDIX C - City of Santa Cruz General Demographic and Financial Information
- APPENDIX D - Form of Bond Counsel Opinion
- APPENDIX E - Form of Continuing Disclosure Certificate
- APPENDIX F - Book Entry Only System

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## OFFICIAL STATEMENT

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**Redevelopment Agency of the City of Santa Cruz  
Merged Earthquake Recovery and Reconstruction Project Area  
2011 Taxable Tax Allocation Bonds**

This Official Statement, including the cover page and appendices hereto, is provided to furnish information in connection with the sale by the Redevelopment Agency of the City of Santa Cruz (the “**Agency**”) of the above-captioned bonds (the “**2011 Bonds**”).

### INTRODUCTION

*This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in “APPENDIX B – Summary of Certain Provisions of the Indenture”.*

**Authority for Issuance.** The Agency is a redevelopment agency existing under the Community Redevelopment Law of the State of California (the “**State**”), constituting Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code, as amended (the “**Redevelopment Law**”). The 2011 Bonds are being issued under the Redevelopment Law and pursuant to an Indenture of Trust, dated as of October 1, 2004, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2011 (as amended and supplemented, the “**Indenture**”), by and between the Agency and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the “**Trustee**”).

**Use of Proceeds.** The 2011 Bonds are being issued to (i) finance redevelopment activities of benefit to the Agency’s Merged Earthquake Recovery and Reconstruction Project Area (the “**Project Area**”), (ii) fund a debt service reserve fund, (iii) fund capitalized interest on the 2011 Bonds through \_\_\_\_\_ and (iv) pay the costs of issuing the 2011 Bonds. See “THE FINANCING PLAN.”

**Security for the 2011 Bonds.** The 2011 Bonds will be payable from and secured by “**Tax Revenues**” (as defined in this Official Statement) allocated to Agency from the Project Area. Tax Revenues is defined in the Indenture and generally includes certain *ad valorem* property taxes attributable to increases in the assessed valuation of certain property (except

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Preliminary; subject to change.



public property and property exempt from taxation) in the Project Area over that shown on the assessment roll for the base year. Tax Revenues are more fully described under the caption "SECURITY FOR THE BONDS -- Tax Revenues".

**Existing and Future Parity Debt.** The 2011 Bonds are payable from and secured by a pledge of Tax Revenues on a parity with the Agency's outstanding 2004 Tax Allocation Bonds (the "**2004 Bonds**"). In addition, the Agency is authorized by the Indenture to incur additional obligations payable from Tax Revenues on a parity with the 2011 Bonds ("**Parity Debt**"). See "SECURITY FOR THE BONDS – Issuance of Additional Debt".

Based on the amount of proceeds used to finance low and moderate income housing projects, 15.82% of each debt service payment on the 2004 Bonds may be repaid from tax increment generated in the Project Area that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund ("Housing Set-Aside") and \_\_\_\_% of each debt service payment on the 2011 Bonds may be repaid from Housing Set-Aside.

**Risk Factors.** Any future decrease in the taxable valuation in the Project Area or in the applicable tax rates could reduce the Tax Revenues allocated to the Agency and correspondingly could have an adverse impact on the ability of the Agency to pay debt service on the 2011 Bonds. See "RISK FACTORS".

**The City.** The City, incorporated in 1866, is located on the northern part of the Monterey Bay approximately 74 miles south of San Francisco and 30 miles from San Jose. The City was first founded in 1769 by the Spanish explorer Don Gaspar de Portola, who, along with Father Junipero Serra, began land based settlement in the area. The City is the county seat for the County of Santa Cruz (the "**County**"), and is a charter city which operates under the provisions of a voter-approved charter. The City has an area of 12 square miles and is the home to the University of California, Santa Cruz, which first opened in 1965 and has a current enrollment of over 15,000 students. For certain information regarding the City, see "APPENDIX C – City of Santa Cruz General Demographic and Financial Information." *The 2011 Bonds are not an obligation of the City.*

**The Agency.** The Agency was created by the City Council of the City of Santa Cruz (the "**City**") in 1956 and is organized under the Redevelopment Law. The members of the City Council serve as the governing board of the Agency. See "THE AGENCY AND THE PROJECT AREA."

**The Redevelopment Plan; The Project Area.** On November 13, 1990, the Agency adopted the Redevelopment Plan (as amended, the "**Redevelopment Plan**") for the Merged Earthquake Recovery and Reconstruction Project Area (the "**Project Area**"), which merged and expanded two existing redevelopment project areas, known as the North Mall Public Improvement Project and the San Lorenzo River Safety and Beautification Project into one project area, and added an additional 808 acres. The principal goal of this Redevelopment Plan is to promote the full and complete recovery of the Project Area from the physical and economic hardships created by the Loma Prieta Earthquake of October 17, 1989. The Project Area covers approximately 1,133 acres.

**The Agency also has a project area known as the Eastside Business Improvement Project Area. Tax Revenues pledged to payment of the 2011 Bonds are derived only from tax increment generated in the Project Area, not the Eastside Business Improvement Project Area.**

**Miscellaneous.** There follows in this Official Statement a brief description of the 2011 Bonds, the Indenture, the Agency, the Tax Revenues, the Project Area, security for the 2011 Bonds, risk factors and limitations on Tax Revenues and certain other information relevant to the issuance of the 2011 Bonds. All references in this Official Statement to the Indenture are qualified in their entirety by reference to the definitive form thereof and all references to the 2011 Bonds are further qualified by references to the information with respect thereto contained in the Indenture. All capitalized terms used in this Official Statement and not normally capitalized have the meanings assigned to them in the Indenture, unless otherwise stated in this Official Statement. A summary of certain provisions of the Indenture is included in Appendix B.

The information set forth in this Official Statement 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 and is not to be construed as a representation by the Underwriter. *The presentation of information, including certain tables of historical data, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the Agency. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.*

The information and expressions of opinion in this Official Statement speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof.

## THE 2011 BONDS

### Description

The 2011 Bonds will be dated their date of issuance and delivery, and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover page. The 2011 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no 2011 Bond shall have more than one maturity date. The 2011 Bonds will be issued only as one fully registered 2011 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 2011 Bonds. See “APPENDIX E - Book-Entry Only System” below. Ownership may be changed only upon the registration books maintained by The Bank of New York Mellon Trust Company, N.A. (the “**Trustee**”), as provided in the Indenture. See “Transfer and Exchange of 2011 Bonds” below.

Interest on the 2011 Bonds is payable semiannually on April 1 and October 1 (each an “**Interest Payment Date**”), commencing October 1, 2011.

Interest on the 2011 Bonds is payable from the Interest Payment Date next preceding its date of authentication unless:

- (a) a 2011 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,

- (b) a 2011 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of issuance of the 2011 Bonds, or
- (c) interest on any 2011 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full.

The 2011 Bonds will mature and will bear interest calculated on the basis of a 360-day year of twelve 30-day months.

The Trustee will pay interest on the 2011 Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the 2011 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the Request of the Owner of 2011 Bonds in an aggregate principal amount of at least \$1,000,000, which Request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2011 Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such Request, which Request will remain in effect until rescinded in writing by the Owner.

The Trustee will pay principal of the 2011 Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at its Office.

**While the 2011 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 2011 Bonds.** The principal of the 2011 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 – Book Entry Only System".

## Redemption

**Optional Redemption.** The 2011 Bonds maturing on or before October 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturity dates. The 2011 Bonds maturing on or after October 1, 20\_\_, are subject to redemption in whole, or in part at the Request of the Agency among maturities on such basis as the Agency may designate and by lot within a maturity, at the option of the Agency, on any date on or after October 1, 20\_\_, from any available source of funds, at a redemption price equal to 100% of the principal amount of the 2011 Bonds to be redeemed, without premium.

**Mandatory Sinking Fund Redemption.** The 2011 Term Bonds are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on October 1 in the respective years as set forth in the following table; provided, however, that if some but not all of the 2011 Term Bonds have been redeemed under the optional redemption provisions of the Indenture, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of the 2011 Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Agency to the Trustee).

### Term Bonds Maturing October 1, 20\_\_

## **General Redemption Provisions**

**Notice of Redemption.** The Trustee on behalf and at the expense of the Agency will mail (by first class mail) notice of any redemption to the Owners of any 2011 Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to the Municipal Securities Rulemaking Board, at least 30 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such 2011 Bonds or the cessation of the accrual of interest thereon.

The redemption notice must state the date of the notice, the redemption date, the redemption place and the redemption price and must designate the CUSIP numbers, the 2011 Bond numbers and the maturity or maturities (in the event of redemption of all of the 2011 Bonds of such maturity or maturities in whole) of the 2011 Bonds to be redeemed, and must require that such 2011 Bonds be then surrendered for redemption at the Office of the Trustee identified in such notice, giving notice also that further interest on such 2011 Bonds will not accrue from and after the redemption date. In addition, the redemption notice must state that the Agency has the right to rescind the notice.

### **Right to Rescind Redemption Notice.**

**Selection of Bonds for Redemption.** The Agency has the right to rescind any notice of the optional redemption of 2011 Bonds Section by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2011 Bonds then called for redemption, and the cancellation will not constitute an Event of Default. The Agency and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to the Municipal Securities Rulemaking Board.

**Manner of Redemption.** Whenever provision is made for the redemption of less than all of the 2011 Bonds, the Trustee will select the 2011 Bonds to be redeemed as directed by the Agency or, if no direction is given by the Agency, by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all 2011 Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate 2011 Bonds which may be separately redeemed.

**Transfer and Exchange.** So long as the 2011 Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of 2011 Bonds will be made in accordance with DTC procedures. See Appendix F below. Any 2011 Bond may, in accordance with its terms, be transferred, upon the registration books of the Trustee, upon surrender of such 2011 Bond to the Trustee at its Principal Corporate Trust Office for cancellation,

accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any 2011 Bond or Bonds are surrendered for registration of transfer, the Agency shall execute and the Trustee shall authenticate and deliver a new 2011 Bond or Bonds, of like series, interest rate, maturity and principal amount of authorized denomination. The Trustee may refuse to transfer, either (a) any 2011 Bonds during the period fifteen (15) days prior to the date established by the Trustee for the selection of 2011 Bonds for redemption, or (b) any 2011 Bonds selected by the Trustee for redemption.

## THE FINANCING PLAN

### Redevelopment Projects

A portion of the proceeds of the 2011 Bonds will be used to fund a variety of redevelopment activities of benefit to the Project Area.

None of the projects financed with proceeds of the 2011 Bonds represent security for the 2011 Bonds.

### Estimated Sources and Uses of Funds

The anticipated sources and uses of funds relating to the 2011 Bonds are as follows:

SOURCES:

Principal Amount of the 2011 Bonds  
Less: Underwriter's Discount  
Plus/Less: Original Issue Premium/Discount  
Total Sources:

USES:

Deposit to Redevelopment Fund  
Deposit to Capitalized Interest Subaccount <sup>(1)</sup>  
Deposit to 2011 Reserve Account  
Deposit to Costs of Issuance Fund <sup>(2)</sup>  
Total Uses:

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(1) Represents capitalized interest on the 2011 Bonds through \_\_\_\_\_.

(2) Includes Trustee fees, Financial Advisor fees, Bond Counsel and Disclosure Counsel fees, printing costs, and other related costs.

**Debt Service Schedule**

Scheduled debt service on the 2011 Bonds, assuming no optional redemption, is shown in the following table.

**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ  
Merged Earthquake Recovery and Reconstruction Project Area  
Debt Service Schedule**

Bond Year Ending October 1	Principal	Interest	Total
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Total			
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## SECURITY FOR THE 2011 BONDS

### Tax Allocation Financing

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes generated within a redevelopment project area to a redevelopment agency. 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, subject to certain pass-through obligations to other taxing agencies, 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 (collectively referred to in this Official Statement as “**taxing agencies**”) for each fiscal year beginning after the effective date 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 date of the ordinance 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 and amounts charged by and paid to or retained by the County as an administrative fee for administration of the property tax system, 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 redevelopment of 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.** The 2011 Bonds and any Parity Debt (defined in “Issuance of Additional Debt” below) are equally secured by a pledge of, security interest in and lien on all of the Tax Revenues and the moneys in the Special Fund. The 2011 Bonds and any additional Bonds (defined in “Issuance of Additional Debt” below) are also secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the 2011 Interest Account, the 2011 Principal Account, the Redemption Account and the 2011 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 the moneys described in the previous sentences, 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 2011 Bonds. See “APPENDIX B – Summary of Certain Provisions of the Indenture”.

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

“Tax Revenues” do not include the following:

(a) that portion of such taxes which is required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year under Section 33334.3 of the Redevelopment Law, except to the extent permitted to be applied to the payment of principal of and interest and redemption premium (if any) on the 2004 Bonds, the 2011 Bonds or any Parity Debt; and

(b) amounts of such taxes (if any) which are required to be paid to other public agencies under the Tax Sharing Agreement, the Tax Sharing Statutes or any agreement entered into in accordance with the provision of the Indenture entitled “Maintenance of Tax Revenues,” except to the extent any such public agency has subordinated its right to receive payment of Tax Revenues to the pledge and lien on Tax Revenues hereunder.

“**Tax Sharing Agreement**” is defined in the Indenture as the agreement between the Agency and the County, dated August 8, 1984, as amended by agreements dated May 1, 1986, April 12, 1989 and October 16, 1990, together with any other amendments thereto at any time entered into between the Agency and the County in accordance with the section of the Indenture entitled “Maintenance of Tax Revenues.” See “LIMITATIONS ON TAX REVENUES – Tax Sharing Obligations.”

“**Tax Sharing Statutes**” are defined in the Indenture as the provisions of the Redevelopment Law, including but not limited to Sections 33401, 33607.5 and 33676 thereof, under which a taxing entity is entitled to receive any portion of the Tax Revenues by operation of such statutory provision. See “LIMITATIONS ON TAX REVENUES – Tax Sharing Obligations.”

The provision of the Indenture entitled “Maintenance of Tax Revenues” provides that the Agency may not enter into any amendment of the Tax Sharing Agreement, or any other



agreement with the County or any other governmental unit, and may not amend the Redevelopment Plan in a manner which causes additional Tax Revenues to be paid to taxing agencies under the Tax Sharing Statutes, if such action would have the effect of reducing the amount of Tax Revenues to be received in the current or any future Fiscal Year below 150% of Maximum Annual Debt Service on all 2004 Bonds, the 2011 Bonds and any Parity Debt.

The Agency's receipt of Tax Revenues is subject to certain limitations contained in the Redevelopment Plan as required pursuant to the Redevelopment Law. See "LIMITATIONS ON TAX REVENUES."

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 2011 Bonds and, consequently, the principal of, and interest on, the 2011 Bonds. Likewise, broadened property tax exemptions could have a similar effect. See "RISK FACTORS" and "LIMITATIONS ON TAX REVENUES."

**NEITHER THE 2011 BONDS NOR THE AGENCY'S OBLIGATIONS UNDER THE INDENTURE ARE A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AGENCY) AND NONE OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AGENCY) IS LIABLE FOR THE 2011 BONDS. THE 2011 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE CITY COUNCIL, THE AGENCY OR ANY PERSONS EXECUTING THE 2011 BONDS ARE LIABLE PERSONALLY ON THE 2011 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.**

#### **Issuance of Additional Debt**

**2004 Bonds.** On October 13, 2004, the Agency issued its Redevelopment Agency of the City of Santa Cruz Merged Earthquake Recovery and Reconstruction Project Area 2004 Tax Allocation Bonds (the "**2004 Bonds**") in the initial principal amount of \$5,245,000. As of the date of this Official Statement, the 2004 Bonds are outstanding in the principal amount of \$4,485,000.

The 2004 Bonds and the 2011 Bonds will be payable from and secured by a pledge of Tax Revenues on a parity basis. Based on the amount of proceeds used to finance low and moderate income housing projects, 15.82% of each debt service payment on the 2004 Bonds may be repaid from tax increment generated in the Project Area that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund ("**Housing Set-Aside**") and \_\_\_\_% of each debt service payment on the 2011 Bonds may be repaid from Housing Set-Aside.

**Parity Debt.** In addition to the 2004 Bonds and the 2011 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 2011 Bonds ("**Parity Debt**") to finance redevelopment activities with respect to the Redevelopment Project in such principal amount as shall be determined by the Agency. The 2004 Bonds, the 2011 Bonds and any Parity Debt issued as bonds under a Supplemental Indenture are collectively referred to in this Official Statement as the "**Bonds**".

The Agency may issue and deliver any such Parity Debt subject to specific conditions set forth in the Indenture, including the following:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing, unless otherwise permitted by the insurer of the 2004 Bonds.

(b) The amount of Tax Revenues for the then current Fiscal Year, based on assessed valuation of property in the Project Area as evidenced in a written document from an appropriate official of the County, is at least equal to 135% of the amount of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt. For purposes of this test, annual debt service on any Parity Debt the proceeds of which have been deposited into an escrow fund as provided in paragraph (d) below will be excluded.

However, the Indenture provides that, so long as the 2011 Bonds are outstanding, the Agency will not issue any Parity Debt unless the amount of Tax Revenues for the then current Fiscal Year, based on assessed valuation of property in the Project Area as evidenced in a written document from an appropriate official of the County, is at least equal to 150% of the amount of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt. The proceeds of any such Parity Debt may be deposited into an escrow fund from which amounts may be released to the Agency to the extent the amount of Tax Revenues for the most recent Fiscal Year (as evidenced in the written records of the County), is at least equal to 150% of the amount of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt.

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

(i) interest on the Parity Debt is payable on April 1 and October 1 in each year of the term of such Parity Debt, except that interest during the first twelve month period may be payable on any April 1 or October 1;

(ii) the principal of the Parity Debt is payable on April 1 or October 1 in any year in which principal is payable; and

(iii) an amount is deposited in a reserve fund from the proceeds of the sale of such Parity Debt in an amount equal to Maximum Annual Debt Service on such Parity Debt or such lesser amount as is the maximum permitted under the Tax Code; provided that such amount may be maintained in the form of a surety bond, letter of credit or other credit instrument if approved in writing by the insurer of the 2004 Bonds.

(d) The proceeds of the Parity Debt may be deposited into an escrow fund from which amounts may be released to the Agency to the extent the amount of Tax Revenues for the most recent Fiscal Year (as evidenced in the written records of the County), is at least equal to 135% of the amount of Maximum Annual Debt Service on

all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt.

(e) The issuance of such Parity Debt may not cause the Agency to exceed any applicable Plan Limitations (defined below). Without limiting the generality of the foregoing, the Agency may not issue any Parity Debt in the event and to the extent that either:

(i) the aggregate amount of debt service on all outstanding obligations of the Agency, including such Parity Debt, exceeds the aggregate amount of Tax Revenues which are eligible under the Redevelopment Plan to be allocated and paid to the Agency during the period while such outstanding obligations remain outstanding, or

(ii) the aggregate principal amount of all outstanding obligations of the Agency, including such Parity Debt, exceeds any applicable limit in the Redevelopment Plan on the aggregate principal amount of indebtedness which the Agency is permitted to have outstanding at any one time.

(f) The Agency must deliver to the Trustee and the insurer of the 2004 Bonds a Certificate of the Agency certifying that the conditions precedent to the issuance of the Parity Debt summarized above and in the documents authorizing the issuance of all other Parity Debt have been satisfied.

**“Plan Limitations”** is defined in the Indenture as the limitations contained or incorporated in the Redevelopment Plan on (a) the aggregate principal amount of indebtedness payable from Tax Revenues which may be outstanding at any time, (b) the aggregate amount of taxes which may be divided and allocated to the Agency under the Redevelopment Plan, (c) the period of time for establishing or incurring indebtedness payable from Tax Revenues, and (d) the period of time for collection of Tax Revenues and repayment of Agency indebtedness from Tax Revenues. See “THE AGENCY AND THE PROJECT AREA – The Redevelopment Plan” and “- Redevelopment Plan Limitations.”

For additional conditions that must be met for the issuance of Parity Debt, see “APPENDIX B – Summary of Certain Provisions of the Indenture.”

**Subordinate Debt.** Pursuant to the Indenture, the Agency may issue or incur subordinate debt (“**Subordinate Debt**”) in such principal amount as shall be determined by the Agency, provided that the issuance of such bonds, notes or other obligations does not cause the Agency to exceed any applicable Plan Limitations. Such Subordinate Debt may be payable from any assets or property of the Agency, including Tax Revenues, on a subordinate basis to the payment of debt service on the 2011 Bonds.

## **Reserve Account**

Under the Indenture, a 2011 Reserve Account is established and held by the Trustee, which is a stand-alone debt service reserve fund for the 2011 Bonds. The Agency established a debt service reserve fund for the 2004 Bonds, which is funded with a debt service reserve fund surety bond and is not available to pay debt service on the 2011 Bonds.

On the date of issuance of the 2011 Bonds, a portion of the 2011 Bond proceeds will be deposited into the 2011 Reserve Account in the amount of the Reserve Requirement. **“Reserve**

**Requirement”** is defined in the Indenture to mean the amount of Maximum Annual Debt Service on the 2011 Bonds.

If the Trustee has actual knowledge that the amount on deposit in the 2011 Reserve Account at any time falls below the Reserve Requirement, the Trustee will promptly notify the Agency of such fact. Upon receipt of any such notice, the Agency will transfer to the Trustee an amount of available Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the 2011 Reserve Account. The Trustee will apply amounts in the 2011 Reserve Account solely (i) for the purpose of making transfers to the 2011 Interest Account and the 2011 Principal Account, in that order of priority, on any date on which the principal of or interest on the 2011 Bonds is due and payable hereunder, if there is a deficiency at any time in any of such accounts, or (ii) at any time for the retirement of all the 2011 Bonds then Outstanding. So long as no Event of Default has occurred and is continuing, the Trustee may withdraw any amount in the 2011 Reserve Account in excess of the Reserve Requirement on the Business Day preceding each Interest Payment Date and deposit such amount in the Interest Account.

On the date on which all of the Outstanding 2011 Bonds mature or are scheduled to be redeemed, the Agency may (but is not required to) direct that the Trustee apply amounts in the 2011 Reserve Account to pay the principal or redemption price of the Bonds on that date. Any amounts remaining in the 2011 Reserve Account following payment or redemption of the Outstanding Bonds in full will be withdrawn from the 2011 Reserve Account by the Trustee and paid to the Agency (or to the City, if so directed in writing by the Agency) to be used for any lawful purposes.

Pursuant to the Indenture, moneys in the 2011 Reserve Account may be released and the Reserve Requirement may be satisfied in whole or in part by the deposit of a financial instrument defined in the Indenture as a “**Reserve Account Surety Bond.**”

See “APPENDIX B – Summary of Certain Provisions of the Indenture” for further information about the 2011 Reserve Account.

## LIMITATIONS ON TAX REVENUES

### Property Tax Limitations: Article XIII A of the California Constitution

California voters, on June 6, 1978, approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors. The amendment further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII A was adopted in June 1986 by initiative which exempts any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property from the 1% limitation.

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

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

### Implementing Legislation

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 assessed valuation (based on the traditional practice in California of using 25% of full cash value as the assessed value for tax purposes). The legislation further provided that, for fiscal year 1978-79, the tax levied by each county was to be appropriated among all taxing agencies within the county in proportion to their average share of taxes levied in certain previous years.

The apportionment of property taxes in fiscal years after fiscal year 1978-79 has been revised pursuant to Statutes of 1979, Chapter 282 which provides relief funds from State moneys beginning in fiscal year 1978-79 and is designed to provide a permanent system for sharing State taxes and budget surplus funds with local agencies. Under Chapter 282, cities and counties receive about one-third more of the remaining property tax revenues collected

under Proposition 13 instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief. Chapter 282 does not affect the derivation of the base levy (\$4.00 per \$100 assessed valuation) and the bonded debt tax rate.

Effective as of fiscal year 1981-82, assessors in California no longer record property values in the tax rolls at the assessed value of 25% of market values. All taxable property is shown at full market value (subject to a 2% annual limit in growth so long as property is not sold). In conformity with this change in procedure, all taxable property value included in this Official Statement is shown at 100% of market value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for bond service and pension liability are also applied to 100% of market value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, annual inflationary value growth of up to 2%) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs except for certain utility property assessed by the State Board of Equalization ("**Unitary Property**") which is allocated by a different method as described under "--Unitary Property" below.

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

There have been many challenges to Article XIII A of the California Constitution. In Nordlinger v. Hahn, the United States Supreme Court heard an appeal relating to residential property. Based upon the facts presented in Nordlinger, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution. The 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.

### **Loma Prieta Legislation**

Following the October 17, 1989 Loma Prieta earthquake, legislation ("**SB 39X**") was enacted which provided that the base year assessed valuation of the Project Area (not including certain property added to the Project Area in 1990, consisting of approximately 482 acres) would be reduced by the same amount as the reductions in the assessment roll granted pursuant to Section 170 of the California Revenue and Taxation Code. Section 170 provides that property owners may apply for a reduction in the assessed value of property to reflect decreases in value caused by natural disasters and other calamitous events. This reduction reduced the base year value of each of three component areas of the Project Area (i.e., the 1986 San Lorenzo Project and its 1989 amendment and the North Mall Project) from \$189,143,852 to \$176,157,007.

SB 39X further provided that such reductions in the base year values would remain in place until such time as the total assessed values of the taxable property in the Project Area had increased to equal the total assessed value prior to October 17, 1989, as adjusted by increases in the Consumer Price Index since that date. The legislation provided that after that date the base year assessed value would then be increased annually by 10% of the difference between the original base year value and the reduced value.

The San Lorenzo Project Area reached its adjusted pre-earthquake assessed value in fiscal year 1995-96.

**[Update]** The North Mall Project Area reached its adjusted pre-earthquake assessed value in fiscal year 1997-98. The remaining annual adjustments total approximately \$4,413,256 which means that if the remaining annual adjustments were hypothetically compressed into the fiscal year 2003-04 base year value of \$603,273,225 the fiscal year 2003-04 base value would instead be \$607,686,481.

## **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 an order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent. A 10% penalty also applies to delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1 ½% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

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

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

**County of Santa Cruz Tax Loss Reserve Fund (Teeter Plan).** General taxes, special taxes, tax increments and assessment installments are collected for all taxing entities and redevelopment agencies by the County. On October 5, 1993, the County approved a resolution of intent to begin operating under Section 4701-4717 of the California Revenue and Taxation Code (the “**Teeter Plan**”). The Teeter Plan became effective in the County on December 7, 1993. Under the Teeter Plan, the County maintains a County Tax Loss Reserve Fund for the purpose of paying each taxing entity 100% of the amounts of certain taxes levied for the benefit of such entities. Under the current Teeter Plan the Agency will receive 100% of the tax increment with respect to taxes on the secured roll and unitary taxes. Tax increment with respect to unsecured taxes is not covered by the Teeter Plan and is subject to reductions from delinquencies. The County has the power to unilaterally discontinue its practice of paying 100% of the secured and unitary tax levy to the Agency. The Teeter Plan may also be discontinued by petition of two-thirds of the participant taxing agencies.

**Property Tax Administration Costs.** In 1990, the Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions on a prorated basis. It has been the practice of most California counties, including Santa Cruz County, to reduce an agency’s tax increment or bill an agency for their *pro rata* share of property tax administration costs. The amount deducted by the County from fiscal year 2009-10 tax increment revenues allocable to the Project Area was \$153,608, or approximately 1.3% of tax increment revenue allocated to the Agency.

## **Unitary Property**

Commencing in fiscal year 1988-89, the Revenue and Taxation Code of the State of California changed the method of allocating property tax revenues derived from state assessed utility properties. It provides for the distribution of state assessed values to tax rate areas by a county-wide mathematical formula rather than assignment of state assessed value according to the location of those values in individual tax rate areas.

Commencing with fiscal year 1988-89, each county has established one county-wide tax rate area. The assessed value of all unitary property in the county has been assigned to this tax rate area and one tax rate is levied against all such property (“**Unitary Revenues**”).

The property tax revenue derived from the assessed value assigned to the county-wide tax rate area shall be allocated as follows: (1) each jurisdiction will be allocated up to 2% of the increase in Unitary Revenues on a pro rata basis county-wide; and (2) any decrease in Unitary Revenues or increases less than 2%, or any increase in Unitary Revenues above 2% will be allocated among jurisdictions in the same proportion of each jurisdiction’s Unitary Revenues received in the prior year to the total Unitary Revenues county-wide.

Legislation adopted in 2006 (SB 1317, Chapter 872) and taking effect with fiscal year 2007-08 required counties to transfer certain railroad properties into a countywide tax rate area from their existing tax rate area.

The Agency received \$15,512 of Unitary Revenues from the Project Area in fiscal year 2009-10.



## **Statement of Indebtedness**

Under the Redevelopment Law, the Agency must file with the County Auditor a statement of indebtedness for the Project Area by October 1 of each year. As described below, the statement of indebtedness controls the amount of tax increment revenue that will be paid to the Agency in each fiscal year.

Each statement of indebtedness is filed on a form prescribed by the State Controller and specifies, among other things: (i) the total amount of principal and interest payable on all loans, advances or indebtedness (including the 2004 Bonds, the 2011 Bonds and other Agency debt) (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 Revenue includes amounts held by the Agency and irrevocably pledged to the payment of Debt other than 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 of the Redevelopment Law provides for certain time limits controlling any dispute of the statement of indebtedness, and allows for Superior Court determination of such dispute if 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 its related contract or expenditures. 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.

The Agency’s October 1, 2010 Statement of Indebtedness included Debt sufficient to collect all the tax increment currently generated in the Project Area for fiscal year 2010-11. The Agency expects that its future Statements of Indebtedness will also include Debt sufficient to collect all of the tax increment generated in the Project Area in future fiscal years.

## **Exclusion of Tax Revenues for General Obligation Bonds Debt Service**

An initiative to amend the California Constitution entitled “Property Tax Revenues of Redevelopment Agencies” was approved by California voters at the November 8, 1988 general election. Under prior law, a redevelopment agency using tax increment revenue received additional property tax revenue whenever a local government increases its property tax rate to pay off its general obligation bonds. This initiative amended the California Constitution to allow the California Legislature to prohibit redevelopment agencies from receiving any of the property tax revenue raised by increased property tax rates imposed by local governments to make payments on their bonded indebtedness. The initiative only applies to tax rates levied to finance bonds approved by the voters on or after January 1, 1989.

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

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

Effective September 30, 1980, the California Legislature added Section 33678 to the Redevelopment Law which provided that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by such agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIII B, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State of California, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions, Brown v. Community Redevelopment Agency of the City of Santa Ana and Bell Community Redevelopment Agency v. Woosley. The plaintiff in Brown v. Community Redevelopment Agency of the City of Santa Ana petitioned the California Supreme Court for a hearing of this case. The California Supreme Court formally denied the petition and therefore the earlier court decisions are now final and binding. On the basis of these court decisions, the Agency has not adopted an appropriations limit.

## **Proposition 218**

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Tax Revenues securing the 2011 Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which are limited by Proposition 218.

## **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.

## **AB 1290**

In 1993, the California Legislature enacted Assembly Bill 1290 ("**AB 1290**") which contained several significant changes in the Redevelopment Law. Among the changes made by AB 1290 was a provision that limits the period of time for incurring and repaying loans, advances and indebtedness payable from tax increment revenues. Since then, the Legislature has amended the Redevelopment Law in a variety of ways that impacts the factors regulated by AB 1290.

On November 15, 1994, the City adopted Ordinance No. 94-54 to bring the Redevelopment Plan into full compliance with AB 1290. The Redevelopment Plan was

amended in accordance with AB 1290 to provide a time limit for the incurrence of debt, a time limit on the duration of the Project, and a time limit on the ability to receive property taxes to repay indebtedness. See "THE AGENCY AND THE PROJECT AREA – Redevelopment Plan Limitations".

## **SB 211**

In 2001, the California Legislature enacted Senate Bill 211 ("**SB 211**"), which allows redevelopment agencies to eliminate the time limits on their ability to incur debt for project areas established prior to January 1, 1994. In addition, SB 211 allows redevelopment agencies to extend the termination date of their redevelopment plans and the deadline for the receipt of tax increment for the repayment of debt by 10 years for project areas established prior to January 1, 1994. In order to extend the termination of the redevelopment plans or the deadline for the receipt of tax increment for the repayment of debt, the redevelopment agency must make certain findings of blight in the applicable project areas. In addition, if a redevelopment agency elects to extend the time limits on the incurrence of debt, the termination of the redevelopment plans or the deadline for the receipt of tax increment for the repayment of debt, the redevelopment agency must make certain additional statutory pass throughs to other taxing entities.

On July 24, 2002, the City Council adopted the necessary implementing ordinance for SB 211 (Ordinance No. 2002-29), and, as a result, assumed statutory tax-sharing obligations. See "THE AGENCY AND THE PROJECT AREA – The Redevelopment Plan."

## **SB 1045; SB 1096**

Pursuant to Senate Bill 1045 ("**SB 1045**") in connection with adoption of statutes requiring an ERAF shift for fiscal year 2003-04, and pursuant to Senate Bill 1096 ("**SB 1096**") in connection with the adoption of statutes requiring an ERAF shift for fiscal years 2004-05 and 2005-06, the California Legislature authorized amendments of redevelopment plans to extend by one year the time limit of the effectiveness of the plan and the time limit to repay indebtedness and receive tax increment.

On February 10, 2004, pursuant to SB 1045, the City Council adopted Ordinance No. 2004-03 to increase by one year the time limits on the effectiveness of the Redevelopment Plan and the time limit to repay indebtedness. Thereafter, on March 8, 2005, pursuant to SB 1096, the City Council adopted Ordinance No. 2005-09 to increase by two years the time limits on the effectiveness of the Redevelopment Plan and the time limit to repay indebtedness. See "THE AGENCY AND THE PROJECT AREA – The Redevelopment Plan."

## **Section 33676 Elections**

**General.** Pursuant to former Health and Safety Code Section 33676, taxing entities were permitted to elect to receive, in addition to the taxes allocated to them pursuant to Health and Safety Code Section 33670(a), the amount of taxes that would otherwise be allocated to the Agency pursuant to Health and Safety Code Section 33670(b) attributable to (i) any increase in the taxing entity's tax rate and (ii) the annual inflation adjustment in the assessed valuation of the secured property within a project area. The payments under Section 33676 reduce the amount of tax increment allocated to the Agency and, therefore, the amount of Tax Revenues.

***Santa Ana Litigation.*** The State Court of Appeals upheld a Superior Court decision in Santa Ana Unified School District v Orange County Development Agency which held the Santa Ana Unified School District had the right to receive payments from the Orange County Redevelopment Agency pursuant to a resolution adopted by the School District in 1996 under former Section 33676(a) of the California Redevelopment 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**”). The Court of Appeals affirmed the lower court ruling that due to an amendment to former Section 33676(a) which occurred in 1985, school and community college districts could receive the 2% Property Tax Increase even without adopting the appropriate resolution prior to the adoption of a redevelopment plan.

After the Santa Ana decision, the Santa Cruz City Schools, Cabrillo College, and the County Office of Education filed with the Agency the necessary resolution to receive their proportional share of the 2% Property Tax Increase.

### **Pass-Through Obligations**

The Agency is obligated to make certain negotiated and statutory pass-through obligations to other taxing entities. See “THE AGENCY AND THE PROJECT AREA – Pass-Through Obligations.”

### **Assessment Appeals**

An assessee of locally assessed or state-assessed property may contest the taxable value enrolled by the county assessor or by the State Board of Equalization (“**SBE**”), respectively. The assessee of SBE-assessed property or locally-assessed personal property, the valuation of which is subject to annual reappraisal, actually contests the determination of the full cash value of property when filing an assessment appeal. Because of the limitations to the determination of the full cash value of locally assessed real property by Article XIII A, an assessee of locally assessed real property generally contests the original determination of the base assessment value of the parcel, i.e. the value assigned after a change of ownership or completion of new construction. In addition, the assessee of locally assessed real property may contest the current assessment value (the base assessment value plus the compounded annual inflation factor) when specified conditions have caused the full cash value to drop below the current assessment value.

At the time of reassessment, after a change of ownership or completion of new construction, the assessee may appeal the base assessment value of the property. Under an appeal of a base assessment value, the assessee appeals the actual underlying market value of the sale transaction or the recently completed improvement. A base assessment appeal has significant future revenue impact because a reduced base year assessment will then reduce the compounded value of the property prospectively. Except for the 2% inflation factor allowable under Article XIII A, the value of the property cannot be increased until a change of ownership occurs or additional improvements are added.

Under Section 51(b) of the Revenue and Taxation Code, the assessor may place a value on the tax roll lower than the compounded base assessment value if the full cash value of

real property has been reduced by damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in the value. Reductions in value under Section 51(b), commonly referred to as “**Proposition 8 reductions**,” can be achieved either by formal appeal or administratively by assessor staff appraising the property. A reduced full cash value placed on the tax roll does not change the base assessment value. The future impact of a parcel subject to a Proposition 8 appeal is dependent upon a change in the conditions which caused the drop in value. In fiscal years following a successful Proposition 8 appeal, the assessor may determine that the value of the property has increased as a result of corrective actions or improved market conditions and enroll a value on the tax roll up to the parcel’s compounded base assessment value. Additionally, successful appeals regarding property on the unsecured rolls does not necessarily affect the valuation of such property in any succeeding fiscal year.

Utility companies and railroads may contest the taxable value of utility property to the SBE. Generally, the impact of utility appeals is on the State-wide value of a utility determined by SBE. As a result, the successful appeal of a utility may not impact the taxable value of the Project Area but could impact the Project Area’s allocation of unitary property taxes.

The actual impact to tax increment is dependent upon the actual revised value of assessments resulting from values determined by the County’s Assessment Appeals Board or through litigation and the ultimate timing of successful appeals. The actual valuation impact to the Project Area from successful assessment appeals will occur on the assessment roll prepared after the actual valuation reduction.

See the “THE AGENCY AND THE PROJECT AREA – Assessment Appeals” for a discussion of certain pending appeals in the Project Area.

## THE AGENCY AND THE PROJECT AREA

### General

The Agency was created by the City of Santa Cruz Council Resolution No. NS-2065, adopted on January 10, 1956.

The City Council of the City is the governing body of the Agency. The City Council, acting as the Agency Board, appoints an Executive Director to implement Agency policies and administer redevelopment activities. The City provides certain staff services to the Agency, including fiscal services, planning, engineering, legal assistance, property services, relocation and other functions necessary for project development. Staff assigned to Agency activities participate in all of the City's employee benefit programs. In addition, the Agency retains the services of independent consultants and advisors to assist in legal and financing aspects, property appraisal and acquisition, relocation, land use studies and such other areas of competence deemed necessary by the Board.

All legislative powers of the Agency are vested in its seven members. Under the Redevelopment Law, the Agency is a separate public body and exercises governmental functions in executing duly adopted redevelopment projects. As such, the Agency has the authority to acquire, develop as a building site, administer and sell or lease property, and has the power of eminent domain, the right to accept financial assistance from any source, and the power to issue bonds, notes or other evidences of indebtedness, and to expend their proceeds. The Agency itself does not have the power to levy taxes.

The Agency currently has two projects: the Project Area and the Eastside Business Improvement Project (the "**Eastside Project**"). The Eastside Project was established on October 23, 1990, and includes 85 acres of residential and commercial zoned land. The tax increment revenues derived from the Eastside Project are not available to pay debt service on the Bonds.

### Agency Administration

**Financial Statements.** The Agency conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. The basic financial statements included in Appendix A are presented on the basis set forth in Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and related statements.

Caporicci & Larson, Certified Public Accountants, audited the financial statements of the Agency for the fiscal year ended June 30, 2010 (the "**2010 Report**"). See "APPENDIX A - Audited Financial Statements of the Agency for Fiscal Year Ended June 30, 2010." *Caporicci & Larson has not been requested to consent to the inclusion of the 2010 Report in this Official Statement and has not reviewed this Official Statement. Accordingly, Caporicci & Larson has not performed any post-audit review of the financial condition or operations of the Agency.*

**Personnel and Pension Costs.** The Agency pays a portion of the City's personnel costs based upon the time spent on Agency business by specific employees. See Appendix C for a summary of the City's pension costs.

**Investment of Funds.** The Agency follows the practice of pooling cash and investments of all funds with the City Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures. See Appendix C for a summary of the City's investment policy and its investment portfolio as of December 31, 2010.

## **History of Redevelopment Activities in the City**

**Initial Redevelopment Project Area.** The initial charge of the Agency was to develop a project to assist the City in recovering from the effects of the floods in December of 1955 to the commercial residential neighborhood along the San Lorenzo River. The redevelopment plan for the initial redevelopment project area, the San Lorenzo Park Project, was adopted on March 9, 1957, and the project area included the area bounded by Water Street, Ocean Street, Soquel Avenue and Front Street. The City Council granted the Agency a broad range of powers with which to redevelop this area during the life of the project from 1957 to 1982. As a result of this project, an intensified downtown urban core was developed. The Agency was also instrumental in development of San Lorenzo Park and the U.S. Army Corps of Engineers' San Lorenzo River Flood Control Project.

**Second Phase of Redevelopment Activities in 1980s.** Upon completion of the redevelopment activities associated with the San Lorenzo Park Project in 1978, the Santa Cruz City Council phased out the Agency as an independent agency and established the City Council as the Agency legislative body. Executive Director activities were assumed by the City Manager and other Agency financing and planning activities were assumed by various city departments. The City Council, acting as the legislative body of the Agency, undertook a number of planning activities in the early 1980's to determine the next phase of downtown development activities. As a result of these planning activities, in 1982 the City Council adopted a Downtown Parking Master Plan and the Pacific Avenue Design Plan. Both of these planning efforts indicated that new initiatives were needed to insure the continued vitality and economic success of the City's downtown area. To address the problem of lack of parking facilities to serve the Pacific Garden Mall, the City Council in 1984 adopted a new redevelopment plan, the North Mall Public Improvement Project (the "**North Mall Project**," which is part of the subsequently merged Project Area). This project was developed to help finance the parking and other infrastructure work needed to assist in the continued revitalization of downtown Santa Cruz.

**Flood Safety Activities.** Another problem confronting businesses and residents in downtown Santa Cruz has been the potential for winter flooding. This problem was initially addressed in 1960 when the U.S. Army Corps of Engineers, as part of the San Lorenzo Park Project, constructed the San Lorenzo River Flood Control Project. As originally constructed, the project involved the artificial lowering, through dredging, of the river bottom and the construction of two and one half miles of river flood control levees. The project also included the concrete channelization of Branciforte Creek from its confluence with the San Lorenzo River for a distance of approximately one and a half miles up-stream.

Several years after construction of the flood control project, city engineers noted that sedimentation was occurring on the river bed at a much faster rate than originally projected by the U.S. Army Corps of Engineers. Within a few years, the river bed had returned to its original level, thereby depriving downtown Santa Cruz of protection from a 100-year flood. The danger of flooding became even more apparent in 1982 when heavy January rains brought the San Lorenzo River to within two feet of spilling over the flood control levees. This event reinforced the need for the City to again address the danger of winter flooding.

In 1985, the City Council formed the San Lorenzo River Task Force to develop a long-term flood control solution. This group of seventeen citizens in 1987 adopted the San Lorenzo River Design Plan (the "**River Plan**"). The plan utilized information developed as a result of the 1982 flood and contained a series of recommendations that both environmentally restored and improved the flood protection provided by the San Lorenzo River Flood Control Project. Project components included reconstruction of the Riverside Avenue bridge, replacement of the northern portion of the Water Street bridge and reestablishment of a riparian habitat along the flood control levees.

The River Plan contained a number of financing strategies, one of which was to establish a redevelopment project area within the flood plain of the San Lorenzo River. This project, the San Lorenzo River Safety and Beautification Project (the "**San Lorenzo River Project**") (part of the subsequently merged Project Area) was subsequently adopted in 1986 and encompassed an area of 211 acres in downtown Santa Cruz all of which were low-lying properties subject to flooding. The project area was amended in 1989 to include an additional flood plain area south of Laurel Street between Center Street, Bay, and California Avenues.

Utilizing tax increment funding provided by the San Lorenzo River Project, the Agency funded the initial design work for the replacement of the Riverside Avenue bridge, the local share of the U.S. Army Corps of Engineers San Lorenzo River Feasibility Study and a portion of the costs of the Neary Lagoon storm drain pump system.

***Loma Prieta Earthquake and Formation of the Merged Project.*** On October 17, 1989, the City was struck by an earthquake measuring 7.1 on the Richter Scale. The earthquake destroyed over 50% of the downtown commercial core; it displaced over 250 commercial, professional and service businesses and hundreds of residents. In February of 1990, the City Council established a Redevelopment Department as a separate City administrative entity to meet the challenge of rebuilding downtown Santa Cruz. The Director of Redevelopment was to act as the Executive Director of the Agency. With its newly assigned staff, the Agency simultaneously undertook a number of important planning and legislative initiatives to begin the post-earthquake rebuilding effort.

A key initiative undertaken by the Agency was the introduction of emergency legislation to streamline the adoption process for a new and expanded redevelopment project to assist in the post-earthquake reconstruction. The necessary redevelopment legislation was introduced in the emergency state legislative session which followed the Loma Prieta Earthquake. This effort took shape as "SB 39X" and was subsequently signed by the Governor on July 18, 1990. The bill established a process through which the Agency could merge its existing North Mall Project and the San Lorenzo River Project and add additional area to a new merged project to deal with the post-Loma Prieta earthquake rebuilding needs. Facilitated by SB 39X, the Project Area was formed by the City Council. See "LIMITATIONS ON TAX REVENUES - Loma Prieta Legislation."

The Project Area is a result of the merger of the project areas of the North Mall Project and the San Lorenzo Project. These two areas were approximately 325 acres. As part of the merger, properties in Harvey West/Portrero Street, Ocean Street, Soquel/Broadway/Ocean Street, and Mission Street areas, representing an additional 808 acres, were added to the existing project area. The new merged Project Area encompasses a total of 1,133 acres and provides a mechanism with which to address post-earthquake re-construction, as well as specific needs in these various areas.



The second major City post-earthquake initiative was the creation of a 36-member public/private partnership, Vision Santa Cruz. Through this advisory body, business leaders and private citizens were able to quickly come together develop a plan and lay the framework for downtown rebuilding. Developed through public process, the Downtown Recovery Plan sets forth land use development standards, circulation, parking and streetscape improvements for the Downtown Santa Cruz area. Additionally, the Downtown Recovery Plan included an economic strategy to be used to complement the physical re-building of the City's downtown area. The Downtown Recovery Plan was adopted by the City Council on September 10, 1991, and provides the planning framework for the downtown redevelopment activities of the Project.

***Eastside Business Improvement Project.*** On October 9, 1990, the City Council adopted the Eastside Project. *The tax increment revenues derived from the Eastside Project are not available to pay debt service on the Bonds.* This project area includes the commercial properties adjacent to Water Street and Soquel Avenue from Branciforte Avenue on the west to Capitola Road on the east.

### **The Redevelopment Plan**

The Project Area was formed by the merger of the North Mall Project and the San Lorenzo Project plus the addition of an additional 482 acres of properties in the Harvey West/Portrero Street, Ocean Street, Soquel/Broadway/Ocean Street, and Mission Street area.

***North Mall Project.*** The City Council adopted the redevelopment plan for the North Mall Project on July 17, 1984, by Ordinance No. 84-53.

***San Lorenzo River Project.*** The City Council adopted the redevelopment plan for the San Lorenzo Project on July 8, 1986, by Ordinance No. 86-34. Thereafter, the redevelopment plan for the San Lorenzo River Project was amended on April 25, 1989, pursuant to Ordinance No. 89-16, to add area to the San Lorenzo River Project.

***Merged Redevelopment Plan.*** On November 13, 1990, the City passed Ordinance No. 90-40 (North Mall Project) and Ordinance No. 90-41 (San Lorenzo River Project) to merge the San Lorenzo River Project and the North Mall Project by adoption of an "Amended Redevelopment Plan for the Merged Earthquake Recovery and Reconstruction Project." The Amended Redevelopment Plan for the Merged Earthquake Recovery and Reconstruction Project, as amended, is referred to as the "**Redevelopment Plan**" in the Indenture and this Official Statement.

**Amendments.** The Redevelopment Plan for the Project Area has been amended by the City Council as follows:

- First Amendment: By Ordinance No. 94-54 adopted on November 15, 1994, in order to comply with Assembly Bill 1290. See “LIMITATIONS ON TAX REVENUES – AB 1290”.
- Second Amendment: By Ordinance No. 2002-29 adopted on July 24, 2002, the City Council eliminated the time limit on the establishment of loans, advances and indebtedness as permitted by Senate Bill 211. See “LIMITATIONS ON TAX REVENUES – SB 211”.
- Third Amendment: By Ordinance No. 2004-03 adopted on February 10, 2004, the City Council, pursuant to SB 1045 as a result of an ERAF payment for fiscal year 2003-04, extended by one year the time limit on the effectiveness of the redevelopment plan and the time limit to repay indebtedness. See “LIMITATIONS ON TAX REVENUES – SB 1045”.
- Fourth Amendment: By Ordinance No. 2005-09 adopted on March 8, 2005, the City Council, pursuant to SB 1096 as a result of ERAF payments for fiscal year 2005-06 and 2006-07, extended by two years the time limit on the effectiveness of the redevelopment plan and the time limit to repay indebtedness. See “LIMITATIONS ON TAX REVENUES – SB 1096”.
- Fifth Amendment: By Ordinance No. 2007-11 adopted on April 24, 2007, the City Council described the Agency’s program to acquire real property by eminent domain.
- Sixth Amendment: By Ordinance No. 2008-10 adopted on June 10, 2008, the City Council increased the tax increment revenue limit of the Project Area.

## **Redevelopment Plan Limitations**

As amended, the Redevelopment Plan for the Project Area is subject to the following limits.

<u>Description</u>	<u>Limit</u>
Plan Life:	November 12, 2023
Final Date to Incur Debt:	None (eliminated per SB 211)
Final Date to Collect Tax Increment and Repay Debt:	November 12, 2033
Cumulative Limit on Tax Increment allocated to the Agency:	\$827 million
Tax Increment Allocated to the Agency as of June 30, 2010 (1):	\$122,943,798
Limit on Outstanding Bonded Indebtedness: (2)	
San Lorenzo River Project:	\$75 million
North Mall Project	\$15 million
Outstanding Bonded Indebtedness: (3)	
San Lorenzo River Project:	\$ _____
North Mall Project:	\$ _____

- 
- (1) Equal to gross tax increment allocated to the Agency through June 30, 2010.
  - (2) Does not apply to refinancing, refunding or restructuring of existing indebtedness where the indebtedness is not increased and the time for repayment is not extended, and certain housing obligations.
  - (3) Includes the outstanding principal amount of the 2004 Bonds (\$4,485,000) and the initial principal amount of the 2011 Bonds (\$\_\_\_\_\_).

***Risk of Reaching the Cumulative Tax Increment Limit.*** The Agency calculated the rate of assessed value that would be required to reach the \$827 million cumulative tax increment limit applicable to the Project Area. Based on allocation to the Agency of \$\_\_ of tax increment from the Project Area as of June 30, 2010, the Agency estimates that the assessed value in the Project Area would have to increase at an average annual rate of \_\_\_\_% in order for the Agency to reach the cumulative tax increment cap prior to the final maturity date of the 2011 Bonds (September 1, \_\_\_\_).

***Related Provisions of the Indenture.*** [discuss covenant re. cumulative tax increment limit]

**Allocation of Taxes**

Secured taxes are due in two equal installments. Installments of taxes levied upon secured property become delinquent on December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31.

The County Auditor-Controller is responsible for the aggregation of the taxable values assigned by the Assessor as of the January 1 lien date for property within the boundaries of the Project Area. This results in the reported total current year Project Area taxable value and becomes the basis of determining tax increment revenues due to the Agency. Although adjustments to taxable values for property within the Project Area may occur throughout the fiscal year to reflect escaped assessments, roll corrections, etc., such adjustments are not

assumed on the tax increment projection. The County disburses tax increment revenue to all redevelopment agencies in two installments: 50% in December, 45% in April and 5% in August; the County disburses supplemental revenue as it is received.

The Agency has covenanted in the Indenture to comply with all requirements of 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.

**Pass-Through Obligations**

The definition of Tax Revenues excludes amounts of taxes (if any) which are required to be paid to other public agencies under the Tax Sharing Agreement and the Tax Sharing Statutes or any agreement entered into in accordance with the provision of the Indenture entitled "Maintenance of Tax Revenues," except to the extent any such public agency has subordinated its right to receive payment of Tax Revenues to the pledge and lien on Tax Revenues hereunder. Set forth below is a summary of the Tax Sharing Agreement and the Tax Sharing Statutes. The Agency's pass-through obligations under the Tax Sharing Agreement and the Tax Sharing Statutes have not been subordinated to payment of debt service on the 2011 Bonds.

A 15.82% portion of the 2004 Bonds and a \_\_\_% portion of the 2011 Bonds is payable from Housing Set Aside; Housing Set Aside is calculated without subtracting amounts required to pay the Pass-Through Obligations.

**Statutory Pass-through Obligations.** The Project Area is subject to the statutory pass-through provisions of the Redevelopment Law. These statutory pass-through payments were triggered by Ordinance No. 2002-29, adopted by the City Council on July 24, 2002, which eliminated the time limit on establishment of indebtedness under SB 211. As a result, the Agency is obligated to make statutory tax sharing payments to local schools districts, as shown in the following schedule.

<b>Component Areas</b>	<b>SB 211 Base Year</b>	<b>First Payment Year</b>
North Mall	FY 2005	FY 2006
San Lorenzo 1986	FY 2007	FY 2008
San Lorenzo 1989	FY 2009	FY 2010
San Lorenzo 1990	FY 2011	FY 2012
North Mall 1990	FY 2011	FY 2012
Project Area 1990		

The statutory pass-through requirements provide for specific formulas for payments to be made by the Agency to affected taxing entities as follows:

- from the first year in which statutory pass-through payments are owed until the last fiscal year in which the Agency receives the tax increment, 25% of the tax increments are passed through to the entities (net of amounts the Agency is obligated to deposit into its Low and Moderate Income Housing Fund); and
- commencing in the eleventh year in which statutory pass-through payments are owed, an additional 21% of the tax increment calculated by applying the tax rate to the increase in assessed value over the assessed value in the tenth year in which

the Agency receives tax increment is passed through to the entities (net of amounts the Agency is obligated to deposit into its Low and Moderate Income Housing Fund).

A third level of payments would commence in the thirty-first year in which statutory pass-through payments are owed, but the Agency's final date to receive tax increment (November 12, 2033) is prior to such thirty-first year.

The statutory pass-through payments are payable from tax increment revenue on a senior basis to the payment of debt service on the 2011 Bonds.

**Negotiated Pass-Through Agreements.** The Agency defines "**Tax Sharing Agreement**" as the following negotiated agreements with the County of Santa Cruz applicable to the Project Area: (i) an agreement dated August 8, 1984 relating to the North Mall Project; (ii) an agreement dated May 1, 1986 with respect to the original area of the San Lorenzo River Project, (iii) an agreement dated April 12, 1989 relating to the added area of the San Lorenzo River Project; and (iv) an agreement dated October 16, 1990 relating to the Project Area as merged.

Pursuant to the agreements listed as (i), (ii) and (iii) above, the Agency agreed (A) to reimburse or pay the County directly the tax increment attributable to the County General Fund and the Special District Augmentation Fund during years 1 through 30 (fiscal years \_\_\_\_ through \_\_\_\_ ) of the applicable component area or until the project is complete and (B) to pay to the County any increase in tax increments attributable to increases in the tax rates imposed by the County within the applicable component area for the County General Fund or the Special District Augmentation Fund which may occur after the tax year in which the redevelopment plan is adopted. The amount described in clause (A) of the previous sentence is approximately \_\_\_\_% of gross tax increment. The projection of Tax Revenues set forth in this Official Statement assumes that the amounts payable to the County pursuant to clause A are equal \_\_\_\_%. The amount described in clause (B) of the second preceding sentence is described as the County's Section 33676 election. There are no provisions for subordinating the payments owed to the County by the Agency under these agreements to debt service on the 2011 Bonds.

Pursuant to the agreement listed as (iv) above, the Agency agreed to pass-through tax increment revenues attributable to the County's share of tax increment generated in the Project Area. In fiscal year 2009-10, the County's share of revenues under this agreement was \$\_\_\_\_\_. The County's share is approximately 26% of gross tax increment. The projection of Tax Revenues set forth in this Official Statement assumes that the County's annual share will be 26.07%. There are no provisions for subordinating the payments owed to the County by the Agency under this agreement to debt service on the 2011 Bonds. This agreement specifies that this agreement and the three agreements described in the previous paragraph will survive the merger of the San Lorenzo River Project and the North Mall Project.

### **Section 33676 Elections**

Pursuant to former Health and Safety Code Section 33676, taxing entities were permitted to elect to receive, in addition to the taxes allocated to them pursuant to Health and Safety Code Section 33670(a), the amount of taxes that would otherwise be allocated to the Agency pursuant to Health and Safety Code Section 33670(b) attributable to (1) any increase in the taxing entity's tax rate and (2) the annual inflation adjustment in the assessed valuation of the property within a project area. Payments under Section 33676 would reduce the amount of tax increment allocated to the Agency and, therefore, the amount of Tax Revenues. See "LIMITATIONS ON TAX REVENUES – Section 33676 Elections."

As described in the previous section, the County made its Section 33676 election with respect to the Project Area pursuant to the Tax Sharing Agreement.

In addition, after the Santa Ana decision described in "LIMITATIONS ON TAX REVENUES – Section 33676 Elections," the Santa Cruz City Schools, Cabrillo College, and the County Office of Education filed with the Agency the necessary resolution to receive their proportional share of the 2% Property Tax Increase.

### **Low and Moderate Income Housing**

The Redevelopment Law requires redevelopment agencies to annually set aside not less than 20% of all tax increment revenues ("**Housing Set-Aside**") into a Low and Moderate Income Housing Fund to be expended for authorized low and moderate income housing. Amounts on deposit in the Low and Moderate Income Housing Fund may also be applied to pay debt service on bonds, loans or advances of redevelopment agencies to provide financing for such low and moderate income housing purposes. Under the Redevelopment Law, the set-aside requirement could be reduced if the redevelopment agency finds that (1) no need exists in the community to improve or increase the supply of low and moderate income housing or (2) that some stated percentage less than 20% of the tax increment is sufficient to meet the housing need.

Based on the amount of proceeds used to finance low and moderate income housing projects, 15.82% of each debt service payment on the 2004 Bonds may be repaid from Housing Set-Aside and \_\_\_\_% of each debt service payment on the 2011 Bonds may be repaid from Housing Set-Aside.

### **Tax Rates**

The tax rate in the Project Area was \_\_\_\_% in fiscal year 2009-10. Pursuant to California law, the tax rate does not include taxes levied with respect to debt that was approved by voters after January 1, 1989. See "LIMITATIONS ON TAX REVENUES – Exclusions of Tax Revenues for General Obligation Bonds Debt Service." The Agency expects the tax rate in the Project Area for purposes of generating Tax Revenues to be 1% beginning in fiscal year \_\_\_\_.

**Project Area Land Use**

The following table shows the value of existing land uses for fiscal year 2010-11 in the Project Area.

**TABLE 1  
REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ  
Merged Earthquake Recovery and Reconstruction Project Area  
Land Use  
Fiscal Year 2010-11**

<b>Land Use</b>	<b>No. of Parcels</b>	<b>Net Taxable Value</b>	<b>% of Total Valuation</b>
Residential	1,462	\$479,833,456	(24.4%)
Commercial	740	830,952,861	(47.5)
Industrial	116	205,922,090	(11.8)
Miscellaneous	24	6,109,257	(0.3)
Govt. Owned	3	3,569,477	(0.2)
Institutional	14	12,622,229	(0.7)
Recreational	10	35,049,308	(2.0)
Vacant	176	53,913,515	(3.1)
Exempt	188	0	(0.0)
SBE Nonunitary	[4]	1,032,356	(0.1)
Cross Reference	[70]	2,767,250	(0.2)
Unsecured	[993]	119,520,117	(6.8)
<b>TOTALS</b>	<b>2,733</b>	<b>\$17,751,200,916</b>	

*Source: Santa Cruz County Assessor 2010/11 Combined Tax Rolls; Redevelopment Agency of the City of Santa Cruz.*

## Rate of Collections

On October 5, 1993, the County approved a resolution of intent to begin operating under the Teeter Plan. See "LIMITATIONS ON REVENUES – Property Tax Collection Procedures." Under the current Teeter Plan, the Agency will receive 100% of the tax increment with respect to taxes on the secured roll and unitary taxes. Tax increment with respect to unsecured taxes is not covered by the Teeter Plan and is subject to reductions from delinquencies.

The County provided the Agency with four property tax delinquency reports: (i) reports as of January 9, 2009 (relating to the December 10, 2008 installment), January 20, 2010 (relating to the December 10, 2009 installment) and January 19, 2011 (relating to the December 10, 2010 installment) and (ii) a report as of June 28, 2010 (relating to the December 10, 2009 and the June 10, 2010 installments). The June 28, 2010 report showed a fiscal year 2009-10 delinquency rate (both installments) of approximately 2.7%. The following table compares the delinquency rate for the December 10 installments in fiscal years 2008-09, 2009-10 and 2010-11.

**TABLE 2**  
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**Property Tax Delinquency Rate**  
**First Installment: Fiscal Years 2008-09 through 2010-11**

<u>Fiscal Year</u>	<u>Delinquency %</u>
2008-09	5.0%
2009-10	2.8
2010-11	2.3

*Source: Redevelopment Agency of the City of Santa Cruz.*

## Major Taxable Property Owners

The 10 largest taxpayers in the Project Area based on fiscal year 2010-11 assessed valuations are shown below with their respective fiscal year 2010-11 assessed valuations. The top 10 taxpayers in the Project Area comprise 18.32% of the total fiscal year 2010-11 Project Area assessed value and 27.05% of the total fiscal year 2010-11 Project Area incremental assessed value.



**TABLE 3**  
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**Ten Largest Taxable Property Owners**  
**Fiscal Year 2010-11**

	Taxpayer	Land Use	# of Parcels	Estimated Assessed Value	% of Total AV
1	Santa Cruz Seaside Company	Recreational	78	\$54,741,902	3.13%
2	S C Beach Hotel Partners LLC (1)	Commercial	4	43,859,749	2.50
3	Cypress Point Re Investors LLC (1)	Commercial	1	42,090,471	2.40
4	Santa Cruz Shaffer Road Investors	Commercial	2	33,664,029	1.92
5	Frederick Electronics Corporation	Industrial	1	30,578,030	1.75
6	The Price Company/Costco (1)	Commercial	3	27,268,074	1.56
7	1010 Pacific Investors	Commercial	1	22,957,060	1.31
8	CFRI Seagate Ocean Street LLC (1)	Commercial	1	22,528,925	1.29
9	Essex Chestnut Apartments LP	Residential	3	22,124,865	1.26
10	University Business Park LLC	Industrial	7	20,963,614	1.20
	<b>Top Ten Total</b>		<b>101</b>	<b>320,776,719</b>	<b>18.32</b>
	<b>Agency Total</b>			<b>1,751,200,916</b>	
	<b>Incremental Net AV Total</b>			<b>\$1,185,870,650</b>	<b>27.05</b>

(1) This property owner has an appeal pending.  
Source: Redevelopment Agency of the City of Santa Cruz.

Four of the top property owners have appeals pending, as set forth in the following table:

**TABLE 4**  
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**Pending Appeals**  
**Fiscal Year 2010-11**

Property Owner Name	Number of Parcels Appealed	FY 2010-11 Assessed Value	Applicant's Opinion of Value	Difference	Difference as % of Assessed Value	Notes
S C Beach Hotel Partners LLC	3	\$38,234,490	\$19,000,000	\$19,234,490	50.31%	2/28/11 hearing
Cypress Point Re Investors LLC	1	42,209,111	32,637,804	9,571,307	22.7	3/21/11 hearing
The Price Company/Costco	1	14,738,466	12,000,000	2,738,466	18.5	
CFRI Seagate Ocean Street LLC	1	22,227,275	11,000,000	11,227,275	50.5	

## New Development

The valuation of property is determined as of January 1 each year. The following development projects were completed after January 1, 2010, the lien date for fiscal year 2010-11. Because the Agency shows debt service coverage on the 2011 Bonds based on fiscal year 2010-11 revenues, the assessed values of these projects and the related Tax Revenues are not reflected in the debt service coverage.

[to come]

## Recent Transfers

The valuation of property is determined as of January 1 each year. The following transfers occurred after January 1, 2010, the lien date for fiscal year 2010-11. Because the Agency shows debt service coverage on the 2011 Bonds based on fiscal year 2010-11 revenues, the assessed values related to the transfers and the related Tax Revenues are not reflected in the debt service coverage.

## Foreclosure Activity

The rate of foreclosures has been markedly less in the Project Area and the City than in the remainder of Santa Cruz County. The numbers have dropped from a similar period last year, particularly the number of homes in pre-foreclosure. The table that follows shows the comparison of the Project Area to the entire Zip Code in which it is located as of \_\_\_\_\_, 20\_\_.

<b>Merged Project Area Foreclosures (All Residential Properties)</b>		
July-October 2010	Zip Code Wide	Merged Project
Foreclosures 95060	7	2
Pre-foreclosures 95060	9	0

Source: Foreclosure.com

## **Historical Assessed Values**

Between fiscal years 2009-10 and 2010-11, the secured property assessed valuation of the Project Area grew by 0.27%; however, the unsecured property tax roll for the Project Area decreased by 19.9%. Several factors account for these statistics.

The secured roll reflects property valuations of building and homes which remained relatively flat in the Project Area. In the Project Area, the unsecured tax roll fell by 19.9% as a result of two factors. The first factor was the closing of a number of businesses due to the economic recession and the loss of their equipment value. The second is specific to the Tannery Lofts affordable housing project. The fiscal year 2009-10 assessor roll included a \$14 million valuation of this project and the approval of a welfare property tax exemption removed this \$14 million valuation from the fiscal year 2010-11 tax roll. This single property accounted for 50% of the decline in the unsecured property tax roll valuation in the Project Area.

In aggregate, the Project Area experienced a 1.4% percent decline in total assessed valuation. The reason the Project Area valuation decrease was not larger is that the unsecured property valuation is a small percentage of the total Project Area valuation.

The following table set forth historical assessed values in the Project Area for fiscal years 1991-92 through 2010-11.

**TABLE 5**  
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**Historical Assessed Values**  
**Fiscal Years 1991-92 through 2010-11**

Fiscal Year	Local Secured Assessed Value	Utility Assessed Value	Unsecured Assessed Value	Total Assessed Value	Less Base Year Value	Incremental Assessed Value	Percentage Change
1991-92	\$670,728,761	\$2,162,940	\$17,866,931	\$690,758,632	\$555,459,841 (1)	\$135,298,791 (4)	n/a
1992-93	781,776,807	1,986,207	83,629,989	867,393,003	599,388,273	\$268,004,730	98.08%
1993-94	828,647,265	458,105	90,256,815	919,362,185	599,388,273	\$319,973,912	19.39
1994-95	854,263,709	3,436,773	94,831,002	952,531,484	599,388,273	\$353,143,211	10.37
1995-96	845,983,798 (2)	3,527,457	82,794,261	932,305,516	599,778,941	\$332,526,575	-5.84
1996-97	877,390,243	3,628,064	90,143,623	971,161,930	600,169,679 (3)	\$370,992,251	11.57
1997-98	900,001,949	3,655,938	91,698,546	1,001,353,251	600,560,417	\$400,797,834	10.27
1998-99	921,613,088	1,558,570	101,422,334	1,024,593,992	601,862,100	\$422,731,892	4.41
1999-00	997,390,228	1,483,674	109,931,830	1,108,805,732	603,157,783	\$505,647,949	19.61
2000-01	1,056,327,853	203,818	118,470,238	1,175,001,909	604,456,466	\$570,545,443	12.83
2001-02	1,166,543,042	414,776	138,173,584	1,305,131,402	605,755,949	\$699,375,453	22.58
2002-03	1,179,344,808	408,772	135,362,314	1,315,115,894	607,053,832	708,062,062	1.24
2003-04	1,195,387,540	439,154	126,283,026	1,322,109,720	604,175,496	717,934,224 (5)	1.39
2004-05	1,271,735,642	595,515	120,870,861	1,393,202,018	605,755,149	787,446,869	9.68
2005-06	1,322,562,993	578,635	119,299,263	1,442,440,891	573,426,356 (6)	869,014,535	10.36
2006-07	1,434,548,007	543,927	122,252,815	1,557,344,749	573,426,356	983,918,393	13.22
2007-08	1,494,220,131	374,208	123,969,838	1,618,564,177	563,186,544 (7)	1,055,377,633	7.26
2008-09	1,562,959,022	374,208	123,865,132	1,687,198,362	565,330,266	1,121,868,096	6.30
2009-10	1,626,333,971	477,956	143,021,202	1,769,833,129	565,330,266	1,204,502,863	7.37
2010-11	1,630,641,439	1,032,356	119,520,117	1,751,193,912	565,330,266	1,185,863,646	-1.55

(1) Base year value in fiscal year 1991-92 did not include unsecured assessed value added to Project Area in fiscal year 1990-91.

(2) Decline for fiscal year 1995-96 due largely to reductions to assessed value as a result of appeals.

(3) Base year for Project Area is being adjusted upward pursuant to legislation passed after Loma Prieta Earthquake. See "Limitations on Tax Revenues - Loma Prieta Legislation."

(4) Increment value is less Home Owners Exemptions.

(5) Limited value change in fiscal year 2003-04 is due to the closure of the Texas Instruments Semi-conductor Plant.

(6) Base year for Project Area adjusted due to purchase of Texas Instrument Plan by University of California, Santa Cruz.

(7) Base year for Project Area adjusted due to purchase of property by the County Office of Education.

Source: California Municipal Statistics, Inc.; Vernazza Wolfe and Associates, Inc for Base Year and Incremental Assessed Value, and City of Santa Cruz, County of Santa Cruz Auditor Property Tax Reports; footnotes provided by the Redevelopment Agency.

## **Owner Participation Agreements**

The Agency is obligated under two separate Owner Participation Agreements for various portions of the \$1,250,000 Chestnut Street Special Assessment District debt. Under the first OPA, the Agency owes \$11,771 as of June 30, 2010. Under the second OPA, the Agency owes \$98,748 as of June 30, 2010. The final principal and interest payment will be made on September 2, 2011.

**[disclose 1010 Pacific Avenue and 1280 Shaffer Road agreements]**

## Historical Tax Revenues and Debt Service Coverage

The following table sets forth historical Tax Revenues for fiscal years 2004-05 through 2009-10.

**TABLE 6**  
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**Historical Tax Revenues**  
**Fiscal Years 2004-05 through 2009-10**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<b>Taxable Values</b>						
Real Property-incl Utility AV	\$1,272,331,157	\$1,323,141,628	\$1,435,091,934	\$1,494,594,339	\$1,563,333,230	\$1,626,811,927
Personal property-unsecured	120,870,861	119,299,263	122,252,815	123,969,838	123,865,132	143,021,202
	1,393,202,018	1,442,440,891	1,557,344,749	1,618,564,177	1,687,198,362	1,769,833,129
<b>Taxable Value Over Base Year</b>	787,446,869	869,014,535	983,918,393	1,055,377,633	1,121,868,096	1,204,502,863
Gross Tax Increment Revenue	7,874,469	8,690,145	9,839,184	10,553,776	11,218,681	12,045,029
Unitary Tax Revenue	7,287	7,726	7,677	12,531	12,866	15,512
<b>Gross Revenues</b>	7,881,756	8,697,871	9,846,861	10,566,307	11,231,547	12,060,541
<b>LESS</b>						
SB 2557 Admin Fee	(122,952)	(109,173)	(129,032)	(112,772)	(119,026)	(148,119)
Housing Set Aside-25% pre FY 10	(1,899,149)	(2,079,391)	(2,339,294)	(2,492,726)	(2,632,276)	(2,249,668)
<b>Tax Sharing Payments</b>						
County of Santa Cruz	(2,048,357)	(2,250,018)	(2,563,987)	(2,746,993)	(2,926,368)	(3,142,391)
ERAF	(660,758)	(611,686)	(611,686)	(619,584)	(784,008)	(3,484,490)
Schools Payment	(285,160)	(387,467)	(495,887)	(619,584)	(784,008)	(894,762)
Total Pass throughs	(2,994,275)	(3,249,171)	(3,059,874)	(3,366,577)	(3,710,376)	(7,521,643)
<b>Tax Revenues</b>	2,988,332	3,369,309	4,447,692	4,707,004	4,888,895	2,289,229

Source: Redevelopment Agency of the City of Santa Cruz.

The following table sets forth historical debt service coverage on the 2004 Bonds.

**TABLE 7**  
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**Historical Debt Service Coverage on the 2004 Bonds**  
**Fiscal Years 2004-05 through 2009-10**

Fiscal Year Ending June 30	Non-Housing Tax Increment Available for Debt Service	Housing Set-Aside Increment Available for Debt Service	Debt Service Payable from Non-Housing Tax Increment	Debt Service Payable from Housing Set-Aside Increment	Non-Housing Tax Increment Coverage Ratio	Housing Set-Aside Coverage Ratio
2005	\$3,014,956	\$1,797,091	\$90,186	\$8,055	33.43%	223.09%
2006	2,817,171	1,833,033	302,038	26,978	9.33	67.95
2007	2,816,213	1,888,024	299,284	26,732	9.41	70.63
2008	2,816,313	1,944,665	301,063	26,891	9.35	72.32
2009	2,817,522	2,003,004	302,727	27,040	9.31	74.08
2010	2,819,898	2,063,095	299,743	26,773	9.41	77.06

Source: Redevelopment Agency of the City of Santa Cruz.

**Projected Debt Service Coverage**

The following table shows the projected debt service coverage on the 2004 Bonds and the 2011 Bonds, based on fiscal year 2010-11 Tax Revenues from the Project Area. Tax Revenues are shown on a fiscal year basis (July 1 through June 30) and debt service is shown on a Bond Year basis (October 2 through October 1). The Agency has assumed that fiscal year 2010-11 Tax Revenues and Housing Set-Aside will remain unchanged through the final maturity date of the 2011 Bonds.

**TABLE 8**  
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ**  
**Merged Earthquake Recovery and Reconstruction Project Area**  
**Projected Debt Service Coverage**

Fiscal Year Ending	Non-Housing Tax Increment Available for Debt Service	Housing Set-Aside Increment Available for Debt Service	Debt Service Payable from Non-Housing Tax Increment	Debt Service Payable from Housing Set-Aside Increment	Non-Housing Tax Increment Coverage Ratio	Housing Set-Aside Coverage Ratio
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The debt service coverage analysis set forth in this Official Statement is based on fiscal year 2010-11 assessed values and calculations of Tax Revenues and Housing Set Aside that



are held constant through the final maturity date of the 2011 Bonds. However, investors should be aware that Tax Revenues and Housing Set Aside will not remain at the fiscal year 2010-11 level for the life of the 2011 Bonds as a result of the variety of factors discussed in this Official Statement (including, specifically, the "RISK FACTORS" section). For example, among others: (i) assessed values in the Project Area will increase and decrease based on a variety of factors, including future new development, property transfers, economic cycles, the annual Proposition 13 inflation/deflation adjustment and some of the issues described in "RISK FACTORS," (ii) any growth in assessed values would proportionately increase the Agency's statutory pass-through obligation, and (iii) pending and future appeals may affect assessed values.

## **RISK FACTORS**

*The following information should be considered by prospective investors in evaluating the 2011 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2011 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

### **Reduction in Taxable Value**

Tax Revenues allocated to the Agency are determined by the amount of incremental taxable value in the Project Area allocable to the Project Area and the current rate or rates at which property in the Project Area is taxed. The reduction of taxable values of property caused by economic factors beyond the Agency's control, such as a relocation out of the Project Area by one or more major property owners, or the transfer, pursuant to California Revenue and Taxation Code Section 68, of a lower assessed valuation to property within the Project Area by a person displaced by eminent domain or similar proceedings, or the discovery of hazardous substances on a property within the Project Area (see "Hazardous Substances," below) or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood or other natural disaster (see "Natural Disasters" below), could cause a reduction in the Tax Revenues securing the 2011 Bonds. Property owners may also appeal to the County Assessor for a reduction of their assessed valuations or the County Assessor could order a blanket reduction in assessed valuations based on then current economic conditions. Such a reduction of assessed valuations and the resulting decline in Tax Revenues or the resulting property tax refunds could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the 2011 Bonds. See "THE AGENCY AND THE PROJECT AREA - Appeals of Assessed Values."

### **Reduction in Inflationary Rate**

As described in greater detail in this Official Statement, Article XIII A of the California Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis.

Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation seven times: in fiscal year 1983-84, 1%; in fiscal year 1995-96, 1.19%; in fiscal year 1996-97, 1.11%; in fiscal year 1999-00, 1.85%; in fiscal year 2004-05, 1.867%; in fiscal year 2010-11, -0.237%; and in fiscal year 2011-12, 0.753%. Fiscal year 2010-11 is the first time the inflationary value adjustment has been a negative number. The Agency is unable to predict if any adjustments to the full cash value base of real property within the Project Area, whether an increase or a reduction, will be realized in the future.

### **Redevelopment Plan Limitations.**

As set forth in the section entitled "THE AGENCY AND THE PROJECT AREA - Redevelopment Plan Limitations," the Redevelopment Plan contains certain limitations that could affect the availability of Tax Revenues to pay debt service on the 2011 Bonds and any

Parity Debt, including time limits on the right to receive tax increment and to pay indebtedness, limitations on the cumulative tax increment and the annual tax increment that can be allocated to the Agency from the Project Area and limitations on the amount of bonded indebtedness that can be outstanding with respect to the Project Area.

The final maturity date of the 2011 Bonds is prior to the time limit after which the Agency may no longer receive tax increment from the Project Area and repay indebtedness (November 12, 2033).

In the event the Project Area were to reach its cumulative tax increment limit, the Agency would no longer be entitled to receive tax increment from the Project Area. See "THE AGENCY AND THE PROJECT AREA – Redevelopment Plan Limitations" for information about the tax increment limits applicable to the Project Area, the rates of growth in the Project Area that could cause the Agency to reach the tax increment limits and provisions of the Indenture intended to assure that the cumulative tax increment limit will not adversely affect the availability of Tax Revenues to pay debt service on the 2011 Bonds. **[confirm]**

### **Levy and Collection**

The Agency does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Agency to repay the 2011 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. See "THE AGENCY AND THE PROJECT AREA – Rate of Collections."

### **Parity Debt**

As referenced under the caption "SECURITY FOR THE 2011 Bonds – Issuance of Additional Debt", the Agency may issue or incur obligations payable from Tax Revenues on a parity with its pledge of Tax Revenues to payment of debt service on the 2011 Bonds. The existence of and the potential for such obligations increases the risks associated with the Agency's payment of debt service on the 2011 Bonds in the event of a decrease in the Agency's collection of Tax Revenues.

### **Factors Affecting Private Lending**

Since the end of 2002, many homeowners have financed the purchase of their new homes using loans with little or no down-payment and with adjustable interest rates that are subject to being reset at higher rates on a specified date or on the occurrence of specified conditions. Homeowners who purchased their homes with sub-prime loans have begun to experience difficulty in making their loan payments due to automatic rate increases on their adjustable loans and rising interest rates in the market.

Increased delinquency rates could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the 2011 Bonds. Moreover, if mortgage loan defaults increase, bankruptcy filings by homeowners are also likely to increase. Bankruptcy filings by homeowners with delinquent property taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent property taxes.

Finally, as a result of increasing defaults on "sub-prime loans" and other constraints in the capital markets, credit has become more difficult and more expensive to obtain, not only in the residential market, but also in the commercial and industrial sectors. Unavailability of loans for the purchase and development of real property in the Project Area may adversely impact assessed value of property in the Project Area and, as a result, adversely impact Tax Revenues available to pay debt service on the 2011 Bonds.

### **State Budget Deficit and ERAF Shift**

**Prior Fiscal Years.** In connection with its approval of the budget for fiscal years 1992-93, 1993-94, 1994-95, 2002-03, 2003-04, 2004-05, and 2005-06, 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 ERAF payments were paid timely by the Agency by allocation of the ERAF payments among the amounts otherwise required to be passed through to taxing entities as surplus Tax Increment Revenues.

**AB 1389.** In 2008, the State Legislature adopted, and the Governor of the State signed, legislation, Chapter 751, Statutes 2008 (AB 1389) ("**AB 1389**"), that among other things require redevelopment agencies to pay into ERAF in fiscal year 2008-09, prior to May 10, 2009, an aggregate amount of \$350 million, of which the Agency was to pay approximately \$280,000. On April 30, 2009, a California Superior Court in *California Redevelopment Association v. Genest* (County of Sacramento) (Case No. 34-2008-00028334) held that the required payment by redevelopment agencies into ERAF in fiscal year 2008-09 pursuant to AB 1389 violated the California constitution and invalidated and enjoined the operation of the California Health and Safety Code section requiring such payment. On May 26, 2009, the State filed a notice that it would appeal the decision of the superior court. On September 28, 2009, the State noticed its withdrawal of its appeal of *California Redevelopment Association v. Genest*. Accordingly, the Superior Court holding of invalidity of the applicable portion of AB 1389 is final.

**2009 SERAF Legislation.** In connection with various legislation related to the budget for the State for its Fiscal Year 2009-10, in late July 2009, the State legislature adopted, and the Governor of the State signed, Assembly Bill No. 26 (the "**2009 SERAF Legislation**").

The 2009 SERAF Legislation mandates that redevelopment agencies in the State make deposits to the Supplemental Educational Revenue Augmentation Fund ("SERAF") that is established in each county treasury throughout the State the aggregate amounts of \$1.7 billion for fiscal year 2009-10, which are due prior to May 10, 2010, and \$350 million for Fiscal Year 2010-11, which are due prior to May 10, 2011.

The Agency paid \$3,746,760 in fiscal year 2009-10 pursuant to the 2009 SERAF Legislation, and the California Department of Finance has notified the Agency that the amount payable by the Agency pursuant to the 2009 SERAF Legislation will be \$770,661 for fiscal year 2010-11. The Agency expects that the SERAF payments will be paid timely by the Agency by allocation of the SERAF payments among the amounts otherwise required to be passed through to taxing entities as surplus Tax Increment Revenues. The Agency did not use moneys in its Low and Moderate Income Housing Fund to make the fiscal year 2009-10 payment and does not expect to use money in its Low and Moderate Income Housing Fund for the fiscal year 2010-11 payment. **[confirm]**

The 2009 SERAF Legislation contains provisions that subordinate the obligation of redevelopment agencies to make the SERAF payments specified therein to certain indebtedness. Section 6 of AB 26, codified at Health and Safety Code, § 33690 (a) (3), states: “The obligation of any agency to make the payments required pursuant to this subdivision shall be subordinate to the lien of any pledge of collateral securing, directly or indirectly, the payment of the principal, or interest on any bonds of the agency including, without limitation, bonds secured by a pledge of taxes allocated to the agency pursuant to Section 33670 of the California Health and Safety Code.”

The 2009 SERAF Legislation imposes various restrictions on redevelopment agencies that fail to timely make the required SERAF payments, including (i) a prohibition on adding or expanding project areas, (ii) a prohibition on the incurrence of additional debt, (iii) limitations on the encumbrance and expenditure of funds, including funds for operation and administration expenses, and (iv) commencing with the July 1 following the due date of a SERAF annual payment that is not timely made, a requirement that the applicable redevelopment agency allocate an additional 5% of all taxes that are allocated to the redevelopment agency under the Redevelopment Law for low and moderate income housing for the remainder of the time that the applicable redevelopment agency receives allocations of tax revenues under the Redevelopment Law. The 5% additional housing set-aside penalty provision referred to in the 2009 SERAF Legislation (the “**Penalty Set-Aside Requirement**”) would be in addition to the 20% of such tax revenues already required to be used for low and moderate income housing purposes. A redevelopment agency that borrows from amounts required to be allocated to its housing set aside funds to make required SERAF payments but does not timely repay the funds, will also be subject to the Penalty Set-Aside Requirement.

Although the 2009 SERAF Legislation contains provisions that subordinate the obligation of redevelopment agencies to make the SERAF payments specified therein to certain indebtedness (which would include a subordination of the Agency’s obligations with respect to the new SERAF payments to the Agency’s obligation to pay debt service on the 2011 Bonds), there is no provision in the 2009 SERAF Legislation subordinating the Penalty Set-Aside Requirement to any indebtedness of a redevelopment agency that fails to timely make the SERAF payments mandated by the SERAF Legislation.

The California Redevelopment Association, the Union City Redevelopment Agency and the Fountain Valley Redevelopment Agency filed a lawsuit in Sacramento County Superior Court on October 20, 2009, challenging the constitutionality of the 2009 SERAF Legislation and seeking a permanent injunction to prevent the State from taking redevelopment funds for non-redevelopment purposes. On May 4, 2010, the Superior Court upheld the 2009 SERAF Legislation. The plaintiffs have appealed the decision in the Third District Court of Appeal. The appeal seeks repayment of the fiscal year 2009-10 payment and a prohibition of the second payment. The Agency cannot predict the outcome of the appeal.

**Proposition 22.** The State’s ability to impose future ERAF and SERAF payments on redevelopment agencies may be affected by Proposition 22, which was approved by the California electorate on November 2, 2010. Proposition 22, among other things, amends Sections 24 and 25.5 of Article XIII of the California Constitution to prohibit the State from reallocating, transferring, borrowing, appropriating or restricting the use of taxes imposed or levied by a local government solely for the local government’s purposes. As applied to redevelopment agencies, Proposition 22 adds Section 25.5(A)(7) to Article XIII of the State Constitution to prohibit the State from requiring a redevelopment agency (A) to pay, remit, loan, or otherwise transfer, directly or indirectly, taxes on ad valorem real property and tangible personal property allocated to the agency pursuant to Section 16 of Article XVI of the State

Constitution to or for the benefit of the State, any agency of the State, or any other jurisdiction; or (B) to use, restrict, or assign a particular purpose for such taxes for the benefit of the State, any agency of the State, or any other jurisdiction, other than (i) statutory pass through payments required by Health and Safety Code Sections 33607.5 and 33607.7 and (ii) payments for the purpose of increasing, improving, and preserving the supply of low and moderate income housing available at affordable housing cost. Although the passage of Proposition 22 will have no impact upon the Agency's obligation to pay the 2010 SERAF Amount, the State Legislative Analyst's Office ("LAO") has stated that the measure prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. No assurance can be provided that Proposition 22 will be implemented as contemplated by the LAO. In addition, Proposition 22 is subject to interpretation by the courts and there can be no assurance that the measure will not be challenged by the State or other parties or repealed by the voters of the State in the future.

**Proposed 2011-12 Budget and Redevelopment Agencies.** On January 10, 2011 Governor Jerry Brown released his proposed budget for fiscal year 2011-12 ("**Proposed Budget**"). The Proposed Budget is designed to address an estimated budget shortfall of \$25.4 billion in the fiscal year 2011-12 California State Budget. The budget shortfall consists of an \$8.2 billion projected deficit for 2010-11 and a \$17.2 billion gap between projected revenues and spending in 2011-12. The Governor's proposal includes approximately \$12.5 billion in budget cuts, \$12 billion in tax extensions and changes, and \$1.9 billion in other solutions. The Governor is calling for a statewide special election in June to extend for five more years tax measures currently set to expire.

The Proposed Budget makes the following redevelopment-related proposals (the "**RDA Provisions**"), among others, although only limited details are provided for such a far-reaching proposal:

- (i) The RDA Provisions, if adopted, would eliminate the current funding mechanism for redevelopment agencies.
- (ii) The RDA Provisions, if adopted, would prohibit existing agencies from creating new contracts or obligations effective upon enactment of urgency legislation.
- (iii) By July 1, the RDA Provisions, if adopted, would disestablish existing redevelopment agencies and successor local agencies would be required to use the property tax revenues that redevelopment agencies would otherwise have received to retire redevelopment agency debts and contractual obligations "**in accordance with existing payment schedules**" (emphasis added).
- (iv) For fiscal year 2011-12, the RDA Provisions, if adopted, would divert an estimated \$1.7 billion remaining after paying the redevelopment agency debts and contractual obligations described in the preceding paragraph (iii) to offset State General Fund costs for Medi-Cal and trial courts. An additional estimated \$210 million would be distributed on a one-time basis to cities, counties, and special districts proportionate to their current share of the countywide property tax.
- (v) For fiscal years after fiscal year 2011-12, the RDA Provisions, if adopted, would distribute the money available after payment of redevelopment agency debt and contractual obligations described in the preceding paragraph (iii) to schools, counties, cities, and non-enterprise special districts for general uses.

(vi) The RDA Provisions, if adopted, would shift amounts in the redevelopment agency's balances reserved for low-moderate income housing to local housing authorities for low and moderate income housing.

(vii) If adopted, the RDA Provisions would introduce a new financing mechanism for economic development. Specifically, the Proposed Budget proposes that the Constitution be amended to provide for 55% voter approval for limited tax increases and bonding against local revenues for development projects such as are currently done by redevelopment agencies. Voters in each affected jurisdiction would be required to approve use of their tax revenues for these purposes.

**Implementation of the Proposed Budget.** Implementation of the Proposed Budget, including the RDA Provisions, would require implementing legislation by the Legislature and voter approval as to certain material elements and would probably include terms which are not yet proposed but that would be material to the Agency and the 2011 Bonds. The Agency cannot predict the ultimate form of any implementing legislation, if any is adopted.

Elements of the RDA Provisions, including the economic development program authorization, contemplate voter approval through the initiative process. It is possible that Proposition 22, which is described immediately above, will affect the State's ability to implement some of the RDA Provisions. It is possible that the Governor and the Legislature may seek voter approval of changes to the terms of Proposition 22 that are in conflict with the Proposed Budget, including the RDA Provisions.

The Agency cannot predict the timing, terms or ultimate implementation of any such final legislation or voter initiative measures, or the impact on the Agency or the 2011 Bonds of any proposed, interim or final legislative and constitutional changes that may be adopted arising out of the Proposed Budget.

**Legislative Analyst Report.** The LAO released its Overview of the Governor's Budget ("**LAO Overview**") on January 12, 2011. As it relates to the RDA Provisions the LAO Overview suggests the proposal has merit "but faces considerable implementation issues." The LAO Overview notes:

the administration's plan will require considerable work by the Legislature to sort through many legal, financial and policy issues. Several voter-approved constitutional measures, for example, constrain the State's authority to redirect redevelopment funds, use property tax revenues to pay for state programs, or impose increased costs on local agencies. In addition, the administration's plan does not address many related issues, such as clarifying the future financial responsibility for low- and moderate- income housing (currently, a redevelopment program).

Finally, the LAO Overview recommends that the Legislature pass urgency legislation as soon as possible prohibiting redevelopment agencies, during the period of legislative review of the Proposed Budget, from taking actions that increase their debt.

**Potential Impact on the Agency and the 2011 Bonds.** There are a variety of ways in which the Proposed Budget and the RDA Provisions, if adopted, could impact the Agency and the 2011 Bonds, although the Agency is not able to predict the full variety or extent of these impacts, and the impacts will vary greatly depending on the final terms of laws adopted to implement the Proposed Budget and the RDA Provisions:

(i) The RDA Provisions, if adopted, could impact the Agency's activities and programs generally and could reduce or eliminate its fund balances and staffing.

(ii) The RDA Provisions, if adopted, could affect the Agency's compliance with and performance under existing contracts and obligations, including senior Pass-Through Agreements and Housing Set-Aside obligations.

(iii) Subject to certain constitutional protections described below, the RDA Provisions, if adopted, could affect the Agency's compliance with and performance under the terms of the Indenture and the 2011 Bonds. These impacts could relate to the amount or availability of property tax revenue, Tax Increment revenues or Tax Revenues for the 2011 Bonds and other uses, the manner of application of Tax Revenues to debt service, flow of funds, use of 2011 Bond proceeds to fund new projects, compliance with Indenture covenants, continuing disclosure and other matters.

(iv) Pending final adoption of laws to implement the RDA Provisions, interim proposals could affect the activities of the Agency and the value of the 2011 Bonds.

(v) Most significantly, the RDA Provisions -- if adopted and implemented in their proposed form -- would eliminate redevelopment agencies and redeploy tax increment revenues affecting redevelopment agencies. These actions would almost certainly raise legal and practical issues, some of which may be subject to litigation and ultimate resolution in the courts, or subsequent legislative action. These issues could affect the Agency and its compliance with the terms of the Indenture and the 2011 Bonds, and resolution of these issues could involve expense and delay or modification of certain of the rights of the bondholders in ways the Agency cannot predict.

**Constitutional Protections.** The Agency believes that constitutional protections against the impairment of contracts will prevent the proposed actions in the RDA Provisions from adversely affecting the validity of the 2011 Bonds or the Agency's pledge of Tax Revenues to secure the payment of the 2011 Bonds. Indeed, the RDA Provisions purport to provide for the payments by successor entities of existing redevelopment agencies' "debts and contractual obligations."

Article I, section 10 of the United States Constitution provides that "No state shall...pass any...law impairing the obligation of contracts." Article I, section 9 of the California Constitution provides that a "law impairing the obligation of contracts may not be passed." Each of these provisions is generally referred to as a "contracts clause". Federal courts have applied a fact-based three-part test to determine whether a state law violates the federal contracts clause. In general, the test compares any impairment against the significant and legitimate public purpose behind the state law; there is no absolute prohibition against impairment.

The United States Supreme Court has declared in the context of a New Jersey law that would have retroactively repealed a 1962 statutory (but contractual) covenant that would have adversely impacted bondowners: "A governmental entity can always find a use for extra money, especially when taxes do not have to be raised. If a State could reduce its financial obligations whenever it wanted to spend the money for what it regarded as an important public purpose, the Contract Clause would provide no protection at all." See United States Trust Co. of New York v. New Jersey (1977) 431 U.S. 1, 25-26.

The Agency cannot predict the applicable scope of "contract clause" protections to the 2011 Bonds and the RDA Provisions as they may ultimately be implemented. Efforts to protect the rights of 2011 Bondholders and to enforce the terms of the Indenture, if necessary, could



involve expense and delay including with respect to the determination of the applicable scope of the "contract clause" provisions.

**Future State Action.** The Agency cannot predict what actions will be taken in the future by the voters of the State, the State Legislature and the Governor to deal with changing State revenues and expenditures and the repercussions they may have on the current fiscal year State Budget, the Proposed Budget and future State budgets, or their impact on the Agency. These developments at the State level, whether related to the Proposed Budget or not, may, in turn, affect local governments and agencies, including the Agency. Even if the proposals affecting the Agency in the Proposed Budget are not adopted, the State Legislature may adopt other legislation from time to time requiring redevelopment agencies to make other payments to ERAF or SERAF or to make other payments. The impact that current and future State fiscal shortfalls will have on the Agency is unknown at this time. In prior years, the State has experienced budgetary difficulties and as in the Proposed Budget, balanced its budget by requiring local political subdivisions, such as the County, the City and the Agency, to fund certain costs previously borne by the State.

**Information About the State Budget and the State.** Information about the State budget and State spending is regularly available from various State offices, including the Department of Finance, the Office of the Legislative Analyst and the State Treasurer. However, none of such information is incorporated by such reference.

## **Natural Disasters**

**General.** From time to time, the City is subject to natural calamities, including, but not limited to, earthquake, flood, tsunami, or wildfire, that may adversely affect economic activity in the City, and which could have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Leased Property, or that the City would have insurance or other resources available to make repairs to the Leased Property in order to make Basic Rental payments under the Lease. See "- Abatement" above.

**Seismic.** The City is located in an area classified as Seismic Zone 4 by the Uniform Building Code. The area includes all of the greater San Francisco Bay Area and all of coastal California. The City is located in an area classified as Seismic Zone 4 by the Uniform Building Code. Seismic Zone 4 is the highest risk zone classification under the Uniform Building Code.

Within Santa Cruz County there are several active and potentially active faults. These include the San Andreas, San Gregorio, Zayante, Ben Lomond and Butano Faults, the Monterey Bay Fault Zone, as well as numerous fault complexes and branches of these major faults.

The City lies within 15 miles of at least six major seismic faults and fault systems, placing it in an area of high seismic risk; however there is only one fault, the Ben Lomond Fault that actually passes through the city. The Ben Lomond Fault is not considered to have moved in historic time, however, and may be inactive.

On October 17, 1989, a 7.1 earthquake, centered east of the City, shook the area. The City sustained approximately \$103 million in property damage which included \$50 million residential property damage, \$41 million commercial property damage and \$12 million public property damage. The Federal Emergency Management Agency (FEMA) and the California State Office of Emergency Services (OES) contributed a total of \$20 million in repairs to City

facilities damaged by the earthquake. The City also received funds from a temporary 1/2 cent increase in the sales tax designed to pay for earth-quake repairs.

**Flood.** There are several areas subject to flooding in the City; a significant portion of the Project Area is in a flood plain. The San Lorenzo River runs through the downtown corridor and the majority of the downtown area is in the San Lorenzo floodplain; as a result, 18 floods, eight of which have been considered severe, have occurred over the last 10 decades. The San Lorenzo River Levee Project significantly reduced the risk of flooding in the downtown area. However, the downtown and beach areas are still designated as floodplains.

Flooding along the coast of the City may occur with the simultaneous occurrence of large waves and storm swells during the winter. Storm centers from the southwest produce the type of storm pattern most commonly responsible for the majority of serious coastline flooding. The strong winds combined with high tides that create storm surges are also accompanied by heavy rains. When storms occur simultaneously with high tides, flood conditions including flooding at the mouth of the San Lorenzo River are exacerbated.

There are several smaller creeks in the City that are subject to periodic flooding. Flooding is a hazard on the lower reaches of Moore Creek where only shallow stream channels are present, the lower portion of Arana Gulch, north of Santa Cruz Yacht Harbor, and along portions of Branciforte and Carbonera creeks. In these areas there is minimal impact on public structures and facilities and only a few residential structures are within these flood zones.

**Wildfire.** There are five wildland/urban interface areas within the City, including three areas designated as mutual threat zones. Mutual threat zones are defined as areas where a wildfire would threaten property within the Santa Cruz fire protection district as well as property covered by another fire protection service.

**Tsunami.** The City is located on the Monterey Bay. Several active and potentially active earthquake faults are located within or near Santa Cruz. Even a moderate earth-quake occurring in or near any of the near by faults could result in local source tsunamis from submarine landsliding in Monterey Bay. Additionally, distinct source tsunamis from the Cascadia Subduction Zone to the north, or Teletsunamis from elsewhere in the Pacific Ocean are also capable of causing significant destruction in Santa Cruz.

## **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.

## **Bankruptcy Risks**

The enforceability of the rights and remedies of the owners of the 2011 Bonds and the obligations of the Agency may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or

affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2011 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

## **Secondary Market**

There can be no guarantee that there will be a secondary market for the 2011 Bonds, or, if a secondary market exists, that such 2011 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. In addition, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

## **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS", interest on the 2011 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2011 Bonds were issued as a result of future acts or omissions of the Agency in violation of its covenants contained in the Indenture. Should such an event of taxability occur, the 2011 Bonds are not subject to special redemption or any increase in interest rate and may remain outstanding until maturity.

## **CONTINUING DISCLOSURE**

The Agency has covenanted for the benefit of holders and beneficial owners of the 2011 Bonds to provide certain financial information and operating data relating to the Agency by not later than seven months following the end of the Agency's fiscal year (which currently would be by January 31 each year based upon the June 30 end of the Agency's fiscal year), commencing January 31, 2012, with the report for the 2010-11 Fiscal Year (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the Agency with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in "APPENDIX E – Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "**Rule**").

**[confirm]** The Agency has not failed to comply with all material obligations under the Rule in the past five years.

## NO LITIGATION

**[confirm]** There is no litigation pending or, to the Agency's knowledge, threatened in any way to restrain or enjoin the issuance, execution or delivery of the 2011 Bonds, or to contest the validity of the 2011 Bonds, the Indenture or any proceedings of the Agency with respect thereto. In the opinion of the Agency and its counsel, there are no lawsuits or claims pending against the Agency which will materially affect the Agency's finances so as to impair the ability to pay principal of and interest on the 2011 Bonds when due.

## RATING

Standard & Poor's Ratings Services ("**S&P**") has assigned its municipal bond rating of "    " to the 2011 Bonds with the understanding that upon delivery of the 2011 Bonds, the Policy insuring the payment when due of the principal of and interest on the 2011 Bonds will be issued by the Bond Insurer.

This rating reflects only the views of S&P. Explanations of the significance of such rating must be obtained from S&P. There is no assurance that such rating will continue for any given period of time or will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2011 Bonds.

## TAX MATTERS

**Federal Tax Status.** The interest on the 2011 Bonds is not intended by the Agency to be excluded from gross income for federal income tax purposes.

**California Tax Status.** In the further opinion of Bond Counsel, interest on the 2011 Bonds is exempt from California personal income taxes.

**Form of Bond Counsel Opinion.** Bond Counsel expects to deliver an opinion at the time of issuance of the 2011 Bonds in substantially the same form set forth in Appendix D hereto.

**Other Tax Considerations.** Owners of the 2011 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2011 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 2011 Bonds other than as expressly described above.

**Circular 230 Disclaimer.** To ensure compliance with requirements imposed by the IRS, Bond Counsel informs owners of the 2011 Bonds that any U.S. federal tax advice contained in this Official Statement (including any attachments) (a) was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer and (b) was written to support the promotion or marketing of the 2011 Bonds. Each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.

## CERTAIN LEGAL MATTERS

The legal opinion of Bond Counsel, approving the validity of the 2011 Bonds, in substantially the form attached hereto as Appendix D, will be made available to purchasers at the time of original delivery of the 2011 Bonds, and a copy thereof will be printed on each 2011 Bond. Jones Hall is also acting as Disclosure Counsel to the Agency. Certain matters will be passed upon for the Agency by the City Attorney, in its capacity as Agency general counsel.

Payment of the fees of Bond Counsel and Disclosure Counsel is contingent upon issuance of the 2011 Bonds

## UNDERWRITING

Pursuant to a Purchase Contract (the "**Purchase Contract**") among the Agency, the City of Santa Cruz Public Financing Authority (the "**Authority**") and \_\_\_\_\_, as underwriter (the "**Underwriter**"), the 2011 Bonds are being purchased by the Authority from the Agency for immediate resale to the Underwriter. **[delete requirement for Authority involvement if bonds are issued on a taxable basis]**

The Underwriter has agreed to purchase the 2011 Bonds from the Authority at a purchase price of \$\_\_\_\_\_ (being the principal amount of the 2011 Bonds (\$\_\_\_\_\_)) *plus* a net original issue premium of \$\_\_\_\_\_ and *less* an underwriter's discount of \$\_\_\_\_\_).

The 2011 Bonds are offered for sale at the initial prices stated on the inside cover page of this Official Statement, which may be changed from time to time by the Underwriter. The 2011 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

## MISCELLANEOUS

**Financial Advisor.** Northcross Hill & Ach, Inc., served as Financial Advisor to the Agency in connection with the issuance of the 2011 Bonds. In connection with the Official Statement, the Financial Advisor has relied upon Agency officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the Agency to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor will receive compensation from the Agency contingent on the sale and delivery of the 2011 Bonds.

**Scope of Official Statement.** All summaries of the Indenture, applicable legislation, agreements and other documents are made subject to the provisions of such documents 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.

This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or owners of any of the 2011 Bonds.

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.

**Execution.** The execution and delivery of this Official Statement has been duly authorized by the Agency.

REDEVELOPMENT AGENCY OF THE  
CITY OF SANTA CRUZ

By: \_\_\_\_\_

**APPENDIX A**

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY  
FOR FISCAL YEAR ENDED JUNE 30, 2010**

**APPENDIX B**

**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**



## APPENDIX C

### CITY OF SANTA CRUZ GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION

#### General

**The County.** Santa Cruz County is the second smallest county by area in California, containing a total of 440 square miles. Two-thirds of the County is considered to be forest land by the U.S. Department of Agriculture. It is located on the Pacific Ocean between the San Francisco Bay Area and the Monterey Peninsula. San Mateo County, which was originally part of Santa Cruz County, borders the county on the north. It is bordered by Santa Clara County on the east and by San Benito and Monterey counties on the south. The County's diverse topography has shaped the County's economy in terms of agricultural uses and tourism. In recent years the County has experienced growth in service industries and light manufacturing.

**The City.** The City, incorporated in 1866, is located on the northern part of the Monterey Bay approximately 74 miles south of San Francisco and 30 miles from San Jose. The City was first founded in 1769 by the Spanish explorer Don Gaspar de Portola, who, along with Father Junipero Serra, began land based settlement in the area. The City is the county seat for the County of Santa Cruz, and is a charter city which operates under the provisions of a voter-approved charter. The City has an area of 12 square miles and is the home to the University of California, Santa Cruz, which first opened in 1965 and has a current enrollment of over 15,000 students. UCSC has received worldwide recognition in the past few years for its high quality academic programs and sponsored research programs such as the California Institute for Quantitative Biomedical Research (QB3), the Center for Information Technology Research in the Interest of Society (CITRIS), and the Laboratory for Adaptive Optics.

#### Population

The City's population at January 1, 2010, the most recent estimate, was 59,684 according to the State Department of Finance. The table below shows population estimates for the City, the County of Santa Cruz and the State of California for the last five years.

**Table C-1**  
**CITY OF SANTA CRUZ, COUNTY OF SANTA CRUZ**  
**AND STATE OF CALIFORNIA**  
**Population Estimates**

Calendar Year	City of Santa Cruz	County of Santa Cruz	State of California
2006	56,709	261,294	37,114,598
2007	57,423	263,499	37,559,440
2008	57,975	265,782	37,883,992
2009	59,016	268,795	38,255,508
2010	59,684	272,201	38,648,090

*Source: State Department of Finance estimates.*

#### Transportation

Five major State highways connect Santa Cruz with adjacent counties. Highway 1 leads along the coast from San Francisco south to the City of Santa Cruz and on to Monterey.

Highways 9 and 17 traverse the County from the City of Santa Cruz across the Santa Cruz mountains into Santa Clara County. Watsonville is joined with Santa Clara County by Highway 152 and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101, a major north-south route.

Air cargo and passenger flight services are provided at the San Jose Metropolitan Airport, 32 miles east; Monterey Airport, 43 miles south; San Francisco International Airport, 60 miles northeast; and Watsonville Municipal Airport. Watsonville Municipal Airport provides private and executive air transportation facilities.

Bus transportation is provided through the Santa Cruz Metropolitan Transit District for inter-urban and local inter-community service. Greyhound and Peerless Bus Lines provide service to other local areas and additional transcontinental service.

Commercial and passenger rail services are provided by the Southern Pacific and Amtrak lines. Southern Pacific Transportation Company provides freight service for the coastal part of the County and the Watsonville area. Freight transportation is also provided through numerous common and contract carriers.

## **Employment and Industry**

The City, as well as the County, is closely tied to the regional economy of the nine-county San Francisco Bay Area and to Silicon Valley in particular. Fiscal Year 2006 showed signs of recovery at the national level, along with the Bay Area and Silicon Valley. Local private employers include a diverse array of manufacturing, business services, retail, hotel and food services, and biotechnology companies. In addition to the local private employers, the local economy also benefits from the University of California Santa Cruz. The University is a major employer, and has potential spin-off benefits from federal and state funded scientific research ventures including biomedical research, technology research, and adaptive optics

Visitors are attracted to the County by the area's diverse natural beauty and its numerous-recreation facilities. California's first State Park, Big Basin Redwoods, was established in Santa Cruz County in 1902. More than 10% of the County's land area is now devoted to State beaches and parks. State beaches provide facilities for swimming, surfing, diving, clamming, sport fishing, picnicking, boating, sunbathing and whale-watching. State parks offer fresh water fishing, overnight camping facilities, hiking trails and nature programs.

Other visitor attractions include the Santa Cruz Boardwalk amusement park and Roaring Camp Narrow-Gauge Railroad. Visitor accommodations are extensive and varied, ranging from modern motel/hotel rooms to rental cottages on private beaches. Convention activities are an important contributor to the County's economy.

The following table shows civilian labor force and wage and salary employment data for the Santa Cruz Metropolitan Statistical Area, which is coterminous with Santa Cruz County, for the past five calendar years.

**Table C-2**  
**SANTA CRUZ METROPOLITAN STATISTICAL AREA**  
**Civilian Labor Force, Employment and Unemployment**  
**(Annual Averages)**

	2005	2006	2007	2008	2009
Civilian Labor Force <sup>(1)</sup>	143,300	143,900	145,600	147,000	149,800
Employment	134,200	135,800	137,000	136,200	133,000
Unemployment	9,000	8,100	8,600	10,700	16,800
Unemployment Rate	6.3%	5.6%	5.9%	7.3%	11.2%
Wage and Salary Employment: <sup>(2)</sup>					
Agriculture	7,800	7,400	7,800	8,600	9,700
Natural Resources, Mining, Construction	5,800	5,900	5,400	4,600	3,300
Manufacturing	6,900	6,500	6,300	5,900	5,200
Wholesale Trade	3,700	4,000	4,300	4,100	3,800
Retail Trade	13,100	13,300	13,100	12,300	11,700
Trans., Warehousing and Utilities	1,500	1,500	1,600	1,500	1,400
Information	1,600	1,400	1,200	1,100	900
Finance and Insurance	2,200	2,200	2,200	2,000	2,000
Real Estate and Rental and Leasing	1,500	1,500	1,500	1,500	1,400
Professional and Business Services	9,300	10,000	10,000	10,000	9,400
Educational and Health Services	11,900	12,100	12,400	12,500	12,700
Leisure and Hospitality	11,000	11,100	11,500	11,300	11,100
Other Services	3,700	3,800	3,900	4,000	3,900
Federal Government	500	500	500	600	500
State Government	7,500	7,800	8,200	8,300	8,100
Local Government	13,300	13,500	13,400	13,400	13,400
Total, All Industries <sup>(3)</sup>	101,300	102,400	103,400	101,600	98,400

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

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

(3) Totals may not add due to rounding.

Source: *State of California Employment Development Department.*

Shown below are the principal employers in the City as of June 30, 2009.

**Table C-3**  
**CITY OF SANTA CRUZ**  
**Major Employers**  
**As of June 30, 2009**

Employer Name	No. of Employees	Percentage of Total Employment
University of California at Santa Cruz	4,679	5.004%
County of Santa Cruz	2,497	2.671
City of Santa Cruz	1,108	1.185
Plantronics	518	0.554
Santa Cruz Beach-Boardwalk	347	0.371
Costco	255	0.273
Community Bridges	250	0.267
Crow's Nest	199	0.213
Santa Cruz Biotechnology Incorporated	190	0.203
United Parcel Service	155	0.166

*Source: City of Santa Cruz Comprehensive Annual Financial Report.*

The following table lists the largest employers within the County as of September 2010.

**Table C-4  
COUNTY OF SANTA CRUZ  
Major Employers  
As of September 2010 (listed alphabetically)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Audiology Associates	Santa Cruz	Physicians & Surgeons
C B North LLC	Watsonville	Membership Sports & Recreation Clubs
City Of Watsonville	Watsonville	Recycling Centers (Whls)
Costco	Santa Cruz	Wholesale Clubs
Dominican Hospital-Psychiatric	Santa Cruz	Mental Health Services
Dutra Farms	Watsonville	Grocers-Wholesale
Monterey Mushrooms	Royal Oaks	Mushrooms
Plantronics Inc	Santa Cruz	Telephone & Telegraph Apparatus (Mfrs)
Santa Cruz Beach Boardwalk	Santa Cruz	Amusement & Theme Parks
Santa Cruz County Auditor	Santa Cruz	County Government-Finance & Taxation
Santa Cruz Governmental Ctr	Santa Cruz	Government Offices-County
Santa Cruz Health Ctr	Santa Cruz	Clinics
Scurich Brothers Inc	Watsonville	Fruits & Vegetables-Growers & Shippers
Seagate Technology LLC	Scotts Valley	Computer Storage Devices (Mfrs)
Seagate US LLC	Scotts Valley	Computer Related Services Nec
Sesnon House	Aptos	Caterers
Sierra Club-Santa Cruz County	Santa Cruz	Environmental Conservation/Ecologcl Org
Source Naturals	Scotts Valley	Vitamin Products-Manufacturers
Threshold Enterprises Ltd	Scotts Valley	Health Food Products-Wholesale
University Of CA-Santa Cruz	Santa Cruz	Schools-Universities & Colleges Academic
US Health & Human Svc Dept	Santa Cruz	Federal Government-Public Hlth Programs
Ventui International Ltd	Santa Cruz	Optical Instruments & Lenses (Mfrs)
Watsonville Community Hospital	Watsonville	Hospitals
West Marine Inc	Watsonville	Boat Equipment & Supplies
Wine & Roses Limousine Svc	Santa Cruz	Limousine Service

*Source: State of California Employment Development Department, America's Labor Market Information System (ALMIS) Employer Database, 2010 2nd Edition.*

## History of Taxable Transactions

Total taxable sales reported during the first three quarters of calendar year 2009 in the City were reported to be \$534,364,000, a 13.02% decrease over the total taxable sales of \$614,342,000 reported during the first three quarters of calendar year 2008. A summary of historic taxable sales within the City is shown in the following table. Annual figures for 2009 are not yet available.

**Table C-5**  
**CITY OF SANTA CRUZ**  
**Number of Permits and Valuation of**  
**Taxable Transactions (shown in thousands of dollars)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2004	1,039	\$649,480	2,316	\$795,060
2005	1,040	674,873	2,222	813,834
2006	1,031	688,502	2,131	837,511
2007	1,004	691,021	2,131	851,755
2008	1,054	651,783	2,187	802,882

*Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).*

## Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County of Santa Cruz, the State and the United States for the past five years for which data is available.

**Table C-6**  
**COUNTY OF SANTA CRUZ**  
**Effective Buying Income**  
**As of January 1, 2005 through 2009**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2005	City of Santa Cruz	\$ 1,263,373	\$48,097
	Santa Cruz County	5,801,768	50,046
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Santa Cruz	\$ 1,334,673	\$48,840
	Santa Cruz County	6,185,743	50,564
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Santa Cruz	\$ 1,398,230	\$50,587
	Santa Cruz County	6,442,143	52,533
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Santa Cruz	\$ 1,431,390	\$51,282
	Santa Cruz County	6,525,443	52,833
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Santa Cruz	\$ 1,495,963	\$53,323
	Santa Cruz County	6,722,508	55,044
	California	844,823,319	49,736
	United States	6,571,536,768	43,252

*Source: Source: The Nielsen Company (US), Inc.*

## Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the City.

**Table C-7**  
**CITY OF SANTA CRUZ**  
**Building Permit Valuation - Calendar Years 2005 through 2009**  
**(Valuation in Thousands of Dollars)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Permit Valuation</u>					
New Single-family	\$16,150.6	\$25,368.9	\$19,597.1	\$13,065.2	\$5,148.1
New Multi-family	2,723.0	1,553.4	50,387.9	4,258.7	0.0
Res. Alterations/Additions	<u>9,511.8</u>	<u>12,021.4</u>	<u>14,384.3</u>	<u>9,803.4</u>	<u>9,619.6</u>
Total Residential	28,385.4	38,943.6	84,369.3	27,127.3	14,767.7
New Commercial	2,407.0	13,941.7	16,318.9	9,200.0	4,065.8
New Industrial	0.0	0.0	0.0	0.0	657.0
New Other	2,125.3	2,840.1	4,555.4	2,401.8	1,653.0
Com. Alterations/Additions	<u>4,692.3</u>	<u>9,920.0</u>	<u>6,634.4</u>	<u>24,492.7</u>	<u>5,570.0</u>
Total Nonresidential	9,224.6	26,701.8	27,508.7	36,094.5	11,945.7
 <u>New Dwelling Units</u>					
Single Family	116	99	59	47	20
Multiple Family	<u>30</u>	<u>21</u>	<u>287</u>	<u>30</u>	<u>0</u>
TOTAL	146	120	346	77	20

*Source: Construction Industry Research Board, Building Permit Summary.*

## Employee Retirement System

As described in the body of the Official Statement in "CITY'S PENSION PLANS," PERS maintains three pension plans for the City: a Fire Safety Plan (the "**Fire Safety Plan**"), a Police Safety Plan (the "**Police Safety Plan**", and with the Fire Safety Plan, the "**Safety Plans**") and a Miscellaneous Plan (the "**Miscellaneous Plan**" and, together with the Safety Plans, the "**PERS Plans**"). The City contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the City who are eligible under PERS. Benefit provision and all other requirements are established by State statute and City ordinance.

**Funding Policy.** City employees are required to contribute 9% of annual covered salary for safety employees and 7% of annual covered salary for all other employees. The City is required to contribute at an actuarially determined rate (based on annual covered payroll); the fiscal year 2010-11 rate is 13.442% for miscellaneous employees, 35.589% for police safety employees, and 39.774% for fire safety employees prior to a December 2010 pension obligation bond issue. Following the December, 2010 pension obligation bond issue, the employer rate dropped to 20.880% for both police safety and fire safety employees.

During the first half of fiscal year 2007-08, miscellaneous employees continued a cost sharing agreement whereby the employee was required to pay the employer share above 6.354%, a portion on a pre-tax basis and a portion on a post-tax basis. In November 2007 and January 2008, all contracts for miscellaneous employees were negotiated to reduce the employee contribution to 7%. This increase in the City's share of PERS costs for miscellaneous



employees, along with PERS rate increases for public safety employees, contributed to a rise in 2009 Annual Pension Costs. Firefighters recently agreed to temporarily (until July 8, 2011) pay 2% of salaries towards the fire Safety Plan on top of the normal 9% employee share, and agreed to increase this additional payment to 2.5% of salaries until June 2012, while Police Officer employees agreed to pay 5% of salaries on top of the normal 9% share until March 2011, and Police Management employees recently agreed to temporarily, until 30 days following the completion of the City's labor agreement with the Police Officers Association sometime in 2011, pay 8% of salaries towards the Police Safety Plan on top of the normal 9% employee share. Neither the 2% employee fire Safety Plan payments nor the Police Officers 5% payments were made in exchange for any additional employee pay, while the 8% Police Management Safety Plan payments were partially offset by a 4% increase in pay.

**Annual Pension Cost.** The City's annual pension costs for the fiscal years 2006-07, 2007-08 and 2008-09 are shown in the following table:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>
June 30, 2007	\$ 6,462,742
June 30, 2008	9,024,674
June 20, 2009	11,301,802

**Unfunded Actuarial Accrued Liability.** The table below shows the recent history of the actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability to payroll for the City. More information is available in Note 10 of the City's 2008-09 audited financial statements attached as Appendix B.

Because the City has less than 100 active members in the Safety Plans in at least one valuation since June 30, 2004, the City is required to participate in a risk pool. An actuarial valuation was performed with other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City is not available.

**Table C-8  
CITY OF SANTA CRUZ  
Trend Information for PERS  
Miscellaneous Plan**

Valuation Date	Actuarial Value Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL/Excess Assets	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
6/30/2006	\$164,898,761	\$183,410,717	\$18,511,956	89.9%	\$33,001,059	56.1
6/30/2007	181,207,670	200,228,705	19,021,035	90.5	34,999,086	54.3
6/30/2008	196,880,882	224,181,921	27,301,039	87.8	39,734,245	68.7

Source: City of Santa Cruz.

**Current Underfunding of Pension Obligations.** As one of the expenditure reduction measures intended to balance its budget, the City negotiated with its labor groups a 10% furlough program for all regular non-safety employees for fiscal year 2009-10; these City employees work and are paid for 36 hours per week rather than for 40. In addition, the City negotiated with the labor group representing police officers a 5% deduction from their gross paychecks, while they still worked a 40-hour workweek; the City negotiated a 10% deduction for non-safety employees; and an approximately 5% deduction for police safety employees. Because the City is obligated to fund its pension plan on the basis of the annual gross rate of compensation rather than the annual amount of compensation, and because the City has been funding its pension plan based on the amount paid to employees rather than the employees' rate of pay, the City has been underfunding its pension plan by approximately 5% for police

safety employees and 10% for non-police safety employees. No underfunding occurred for fire safety employees.

According to an actuarial report commissioned by the City and finalized in April 2010, the fiscal year 2009-10 underfunding was in the amount of approximately \$781,000 and the fiscal year 2010-11 underfunding will be in the amount of approximately \$815,000, which will increase the June 30, 2010 UAAL (\$781,000) and the June 30, 2011 UAAL (\$1,596,000 accumulated). The actuarial study projects that the underfunding will increase the contribution rates in fiscal year 2012-13 by \$50,000 and fiscal year 2013-14 by \$100,000.

### **Other Post-Employment Retirement Benefits**

**General.** In April 2004, the Governmental Accounting Standards Board (“**GASB**”) issued Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. Statement No. 43 establishes uniform financial reporting standards for post-employment healthcare and other nonpension benefits (“**OPEB**”) plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 is applicable to the City for the fiscal year ending June 30, 2009.

Subsequently, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45’s provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

As required, the City has adopted GASB 43/45 beginning with fiscal year 2008-09.

**City Plan Description.** The City of Santa Cruz Post-Retirement Health Care Plan (the “**Plan**”) is a single-employer defined benefit healthcare plan administered by PERs. The plan provides healthcare benefits to eligible retirees. The City contributes the Public Employees’ Medical and Hospital Care Act (“**PEMHCA**”) minimum required employer contribution of \$101 per month towards the retiree monthly premium for eligible retirees participating in PEMHCA.

All part-time and full-time regular employees that meet specified Memorandum of Understanding continuous service and minimum age requirements are also eligible to receive a Retiree Medical Incentive. Employees must meet certain minimum eligibility requirements:

- age                      Service – Ten years of continued service with the City and be at least 55 years of age
- years of age            Supervisor – Ten years of continued service with the City and be at least age 50
- years of age            Management – Five years of continued service with the City and be at least 50

- Public Safety - Five years of continued service with the City and be at least 50 years of age

Retiree medical incentives will be provided until the retiree becomes eligible for Medicare or discontinues PERS medical coverage. The City Council and unions have the authority to negotiate and amend benefit provisions to the Retiree Medical Incentive.

**Annual OPEB Cost and Net OPEB Obligation.** The Annual Required Contribution (“ARC”) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City’s annual OPEB cost for fiscal year 2009-10, the amount actually contributed to the plan, and changes in the City’s Net OPEB obligation:

Annual required contribution	\$ 1,637,272
Interest on net OPEB obligation	--
Adjustment to annual required contribution	<u>11,000</u>
Annual OPEB cost (expense)	1,648,272
Contributions (benefit payments)	<u>(360,431)</u>
Increase in net OPEB obligation	\$ 1,287,841
Net OPEB obligation – beginning of year	<u>1,446,772</u>
Net OPEB obligation – end of year	\$ 2,734,613

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009-10 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 1,742,000	\$295,228	16.9%	\$ 1,446,772
June 30, 2010	1,648,272	360,431	21.87	2,734,613

**Funding Policy.** There is no statutory requirement for the City to prefund its OPEB obligation. The City has currently chosen to pay plan benefits on a pay-as-you-go basis. In fiscal year 2009-10, the City contributed the following amounts for eligible employees:

OPEB	No. of Employees	Amount
Required Employer Contribution	174	\$195,963
Retire Medical Incentive	86	<u>164,468</u>
Total fiscal year 2009-10 OPEB Costs		\$360,431

**Funded Status and Funding Progress.** As of July 1, 2008, the plan’s most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability as of July 1, 2008 was \$15,596,000 and there were no actuarial value of assets, which resulted in the unfunded actuarial liability of \$15,596,000. The annual covered payroll for fiscal year 2009-10 was \$53,001,365 and the ratio of the unfunded actuarial liability to the annual covered payroll was 29.43%.

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions include a 5% interest rate (used to discount results to present value), covered payroll rising 3.25% annually, premiums rising 5% annually, the PERS minimum employer contribution rising 4% annually, and the same mortality, retirement, and turnover rates used in the City's pension costs. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of increasing payroll. Payments are set to rise 3.25% annually, so that they are expected to remain a constant percentage of covered payrolls.

### **Investment Policies and Procedures**

The City invests its pooled funds, including those of the Agency, in accordance with the City's Investment and Portfolio Policy (the "**Investment Policy**"), which is subject to annual review and approval by the City Council. The purpose of the Investment Policy is to establish the investment goals of safety, liquidity, and yield (in that order). The City's Investment Policy complies with the provisions of the California government Code, Sections 53600 through 53659 (the authority governing investments for municipal governments in the State). The Investment Policy limits the City to investments authorized by State law. In addition, the Investment Policy establishes further guidelines.

The overall strategy of the Investment Policy is to earn a market rate of return, while maintaining sufficient liquidity to meet operating cash requirements. This is accomplished by maintaining a portfolio of allowable investment instruments that have acceptable credit quality standards with maturities matching expected cash needs. The City does not actively trade securities in the open market. The City utilizes a "buy and hold" approach, which means that it holds securities until maturity.

The City Council reviews monthly investment reports. According to the report for the month ended January 31, 2011, the City has invested funds as set forth in the table below, which had an average number of days to maturity of 173 days based upon the earlier to occur of maturity or redemption.

**Table C-9**  
**CITY OF SANTA CRUZ**  
**Investment Portfolio as of January 31, 2011**

	<b>Par Value</b>	<b>Market Value</b>	<b>Cost</b>	<b>% of Portfolio</b>	<b>Days to Mat./Call</b>	<b>YTM/C</b>
Certificates of Deposit	\$935,000	\$935,000	\$935,000	0.78%	1,005	1.282%
Local Agency Investment Funds	79,548,015	79,664,260	79,548,015	65.95	1	0.538
Santa Cruz Pension Obl. Bonds	4,140,000	4,111,607	4,140,000	3.43	994	2.842
Federal Agency Securities	36,000,000	36,220,390	36,001,250	29.84	437	1.553
<b>Total</b>	<b>120,623,015</b>	<b>120,931,257</b>	<b>120,624,265</b>	<b>100.00</b>	<b>173</b>	<b>0.926</b>

Source: *City of Santa Cruz.*

**APPENDIX D**  
**FORM OF BOND COUNSEL OPINION**

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX F

### BOOK ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“**DTC**”), the procedures and record keeping with respect to beneficial ownership interests in the securities described in this Official Statement (the “**Bonds**”), payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “**Rules**” applicable to DTC are on file with the Securities and Exchange Commission and the current “**Procedures**” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the



users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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

**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ AUTHORIZING THE ISSUANCE AND SALE OF TAX ALLOCATION BONDS TO FINANCE QUALIFYING HOUSING AND REDEVELOPMENT PROJECTS RELATING TO THE MERGED EARTHQUAKE RECOVERY AND RECONSTRUCTION PROJECT, AND APPROVING RELATED DOCUMENTS AND ACTIONS**

**WHEREAS**, a Redevelopment Plan for the Merged Earthquake Recovery and Reconstruction Project Area, in the City of Santa Cruz (the "Redevelopment Project"), has been adopted in compliance with all requirements of Part 1 of Division 24 of the Health and Safety Code of the State of California (the "Redevelopment Law"); and

**WHEREAS**, in order to finance and refinance various programs, projects and activities of the Agency relating to the Redevelopment Project, including qualifying low- and moderate-income housing projects, the Agency has previously issued its City of Santa Cruz Merged Earthquake Recovery and Reconstruction Project Area 2004 Tax Allocation Bonds in the aggregate principal amount of \$5,245,000 (the "2004 Bonds"), which are payable from and secured by a pledge of the tax increment revenues derived from the Redevelopment Project; and

**WHEREAS**, in order to provide additional funds to finance programs, projects and activities relating to the Redevelopment Project, including qualifying low- and moderate-income housing projects, the Agency wishes at this time to authorize the issuance and sale of multiple series of its Merged Earthquake Recovery and Reconstruction Project Area Tax Allocation Bonds (collectively, the "Bonds"), which will be secured by a pledge of and first lien on the tax increment revenues derived from the Redevelopment Project on a parity with the 2004 Bonds; and

**WHEREAS**, the Bonds will be issued under the provisions of the Redevelopment Law, and under the provisions of the Indenture of Trust dated as of October 1, 2004 (the "2004 Bond Indenture") between the Agency and BNY Western Trust Company, as trustee, as supplemented and amended by a First Supplement to Indenture of Trust between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee for the Bonds; and

**WHEREAS**, the Agency wishes to take its action at this time authorizing the issuance and sale of the Bonds and approving all documents and actions relating thereto;

**NOW, THEREFORE, BE IT RESOLVED** by the Redevelopment Agency of the City of Santa Cruz as follows:

**Section 1. Authorization of Bonds.** The Agency hereby authorizes the issuance of the Bonds under the Bond Law. The Bonds are authorized to be issued in multiple series, including a series the proceeds of which are applied to finance qualifying low- and moderate-income housing projects in the City of Santa Cruz (the "Housing Bonds") and a series the proceeds of which are applied to finance programs, projects

and activities of the Agency relating to the Redevelopment Project other than housing projects (the "Redevelopment Bonds"). The Housing Bonds are authorized to be issued in the aggregate principal amount of not to exceed \$12,000,000 and the Redevelopment Bonds are authorized to be issued in the aggregate principal amount of not to exceed \$32,000,000. The Redevelopment Bonds are further authorized to be issued in the form of a tax-exempt series of bonds (the "Tax-Exempt Redevelopment Bonds") and in the form of a taxable series of bonds (the "Taxable Redevelopment Bonds"), as shall be determined by the Executive Director upon the advice of bond counsel to the Agency.

**Section 2. Approval of First Supplement to Indenture of Trust.** The Bonds shall be issued under the 2004 Bond Indenture, as supplemented and amended by a First Supplement to Indenture of Trust (the "First Supplemental Indenture"), between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee. The Agency hereby approves the First Supplemental Indenture in substantially the form thereof on file with the Secretary, together with any additions thereto or changes therein approved by the Executive Director or the Treasurer of the Agency (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such additions or changes by such Authorized Officer. The Executive Director is hereby authorized and directed to execute, and the Secretary of the Agency is hereby authorized and directed to attest and affix the seal of the Agency to, the First Supplemental Indenture for and in the name and on behalf of the Agency. The Agency hereby authorizes the delivery and performance of the First Supplemental Indenture.

**Section 3. Taxable Status of a Portion of the Bonds.** The Agency hereby determines that interest payable on the Housing Bonds and the Taxable Redevelopment Bonds will be subject to federal income taxation, and that the provisions of Section 5900 et seq. of the California Government Code (the "Taxable Bond Act") apply to such Bonds. The Agency may take any action and exercise any power permitted to be taken by it under the Taxable Bond Act in connection with the issuance and sale of such Bonds as may be deemed advisable by an Authorized Officer.

**Section 4. Sale of Bonds.** Pursuant to Section 5903 of the Taxable Bond Act, the Agency hereby authorizes the negotiated sale of the Bonds to a bank, investment bank, underwriter or other financial institution designated by the Executive Director (the "Purchaser"). The Bonds shall be sold to the Purchaser pursuant to a Purchase Contract between the Agency and the Purchaser in substantially the form on file with the Secretary together with any additions thereto or changes therein approved by an Authorized Officer, whose execution thereof shall be conclusive evidence of the approval of any such additions or changes. The Agency hereby delegates to an Authorized Officer the authority to accept an offer from the Purchaser to purchase the Bonds and to execute the final Purchase Contract in the name of the Agency. The Purchaser's discount on the sale of the Bonds shall not exceed 1.50% of the par amount thereof, and the true interest rate on the Bonds (taking into account any original issue discount on the sale thereof) shall not exceed 10.00% per annum.

Notwithstanding the foregoing, in the event that a portion of the Redevelopment Bonds are issued in the form of Tax-Exempt Redevelopment Bonds, such Bonds shall be sold on a negotiated basis to the City of Santa Cruz Public Financing Authority (the "Authority") under the provisions of Sections 6589 and 6591(f) of the Government Code of the State of California. Concurrently with the purchase of such Bonds by the Authority, the Authority shall sell such Bonds to the Purchaser under the Purchase

Contract described in the preceding paragraph, at a price and bearing interest at the rates which fall within the limitations set forth in the preceding paragraph.

**Section 5. Official Statement.** The Agency hereby approves, and hereby deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds, in the form on file with the Secretary. The Executive Director is hereby authorized and directed to (a) execute and deliver to the purchaser of the Bonds a certificate deeming the Preliminary Official Statement to be nearly final as of its date, (b) approve any changes in or additions to cause the Official Statement to be put in final form, and (c) execute the Final Official Statement for and in the name and on behalf of the Agency. The Purchaser is hereby authorized to distribute the Preliminary Official Statement and the Final Official Statement to prospective purchasers of the Bonds.

**Section 6. Engagement of Professional Services.** The Agency hereby appoints the firm of Jones Hall, A Professional Law Corporation, to act as bond counsel and disclosure counsel to the Agency in connection with the issuance and sale of the Bonds, and the firm of Northcross, Hill & Ach, Inc. to act as financial advisor in connection with the issuance and sale of the Bonds. An Authorized Officer is authorized and directed to execute an agreement with each of such firms in the respective forms on file with the Secretary.

**Section 7. Official Actions.** All actions heretofore taken by the officers and agents of the Agency with respect to the issuance of the Bonds are hereby approved, confirmed and ratified. The Chairperson, the Executive Director, the Treasurer, the Secretary and any and all other officers of the Agency are hereby authorized and directed, for and in the name and on behalf of the Agency, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions described herein. Whenever in this Resolution any officer of the Agency is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

**Section 8. Effective Date.** This Resolution shall take effect immediately upon its passage and adoption.

PASSED AND ADOPTED by the Redevelopment Agency of the City of Santa Cruz at a regular meeting thereof held on the 1st day of March, 2011.

AYES:

NOES:

ABSENT:

DISQUALIFIED:

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Chair

Attest:

---

Secretary

## RESOLUTION NO. \_\_\_\_\_

### RESOLUTION OF THE BOARD OF DIRECTORS OF THE CITY OF SANTA CRUZ PUBLIC FINANCING AUTHORITY AUTHORIZING THE PURCHASE AND SALE OF TAX ALLOCATION BONDS TO BE ISSUED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ, APPROVING RELATED DOCUMENTS AND AUTHORIZING OFFICIAL ACTIONS

**WHEREAS**, a Redevelopment Plan for the Merged Earthquake Recovery and Reconstruction Project Area, in the City of Santa Cruz (the "Redevelopment Project"), has been adopted in compliance with all requirements of Part 1 of Division 24 of the Health and Safety Code of the State of California (the "Redevelopment Law"); and

**WHEREAS**, in order to finance and refinance various programs, projects and activities of the Agency relating to the Redevelopment Project, including qualifying low- and moderate-income housing projects, the Agency has previously issued its City of Santa Cruz Merged Earthquake Recovery and Reconstruction Project Area 2004 Tax Allocation Bonds in the aggregate principal amount of \$5,245,000 (the "2004 Bonds"), which are payable from and secured by a pledge of the tax increment revenues derived from the Redevelopment Project; and

**WHEREAS**, in order to provide additional funds to finance programs, projects and activities relating to the Redevelopment Project, including qualifying low- and moderate-income housing projects, the Agency has authorized the issuance and sale of multiple series of its Merged Earthquake Recovery and Reconstruction Project Area Tax Allocation Bonds (collectively, the "Bonds"), which will be secured by a pledge of and first lien on the tax increment revenues derived from the Redevelopment Project on a parity with the 2004 Bonds; and

**WHEREAS**, the Agency has requested the City of Santa Cruz Public Financing Authority (the "Authority") to purchase any series of the Bonds which is issued on a tax-exempt basis (the "Tax-Exempt Redevelopment Bonds") and to re-sell the Tax-Exempt Redevelopment Bonds to a bank, investment bank, underwriter or other financial institution designated by the Executive Director of the Agency (the "Purchaser"); and

**WHEREAS**, the Board of Directors of the Authority wishes at this time to authorize the purchase and sale of such Bonds and to approve all related documents and actions;

**NOW, THEREFORE, BE IT RESOLVED**, by the Board of Directors of the City of Santa Cruz Public Financing Authority as follows:

**Section 1. Purchase and Sale of Bonds.** The Board of Directors hereby authorizes the purchase of the Tax-Exempt Redevelopment Bonds from the Agency and the concurrent sale of the Tax-Exempt Redevelopment Bonds to the Purchaser, under the provisions of Sections 6589 and 6591(f) of the Government Code of the State of California. The Authority shall purchase the Tax-Exempt Redevelopment Bonds from the Agency and sell the Tax-Exempt Redevelopment Bonds to the Purchaser under a Purchase Contract among the Agency, the Authority and the Purchaser, in substantially

the form on file with the Secretary together with any additions thereto or changes therein approved by the Executive Director or the Chief Financial Officer (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of any such additions or changes. An Authorized Officer is hereby authorized and directed to execute the Purchase Contract for and in the name and on behalf of the Authority.

**Section 2. Official Actions.** All actions previously taken by the officers and agents of the Authority with respect to the purchase and sale of the Bonds are hereby approved, confirmed and ratified. The Chair, the Executive Director, the Chief Financial Officer and the Secretary of the Authority, and any and all other officers of the Authority, are hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions described herein. Whenever in this Resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf if such officer is absent or unavailable.

**Section 3. Effective Date.** This Resolution shall take effect from and after the date of its passage and adoption.

\* \* \* \* \*

PASSED AND ADOPTED by the City of Santa Cruz Public Financing Authority at a special meeting thereof held on the 1st day of March, 2011, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

\_\_\_\_\_  
Chair

Attest:

\_\_\_\_\_  
Secretary



## **RESOLUTION NO. NS-**

### **RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ APPROVING THE ISSUANCE BY THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ OF TAX ALLOCATION BONDS TO FINANCE QUALIFYING HOUSING AND REDEVELOPMENT PROJECTS RELATING TO THE MERGED EARTHQUAKE RECOVERY AND RECONSTRUCTION PROJECT**

**WHEREAS**, a Redevelopment Plan for the Merged Earthquake Recovery and Reconstruction Project Area, in the City of Santa Cruz (the "Redevelopment Project"), has been adopted in compliance with all requirements of Part 1 of Division 24 of the Health and Safety Code of the State of California (the "Redevelopment Law"); and

**WHEREAS**, in order to finance and refinance various programs, projects and activities of the Agency relating to the Redevelopment Project, including qualifying low- and moderate-income housing projects, the Agency has previously issued its City of Santa Cruz Merged Earthquake Recovery and Reconstruction Project Area 2004 Tax Allocation Bonds in the aggregate principal amount of \$5,245,000 (the "2004 Bonds"), which are payable from and secured by a pledge of the tax increment revenues derived from the Redevelopment Project; and

**WHEREAS**, in order to provide additional funds to finance programs, projects and activities relating to the Redevelopment Project, including qualifying low- and moderate-income housing projects, the Agency wishes at this time to authorize the issuance and sale of its Merged Earthquake Recovery and Reconstruction Project Area Tax Allocation Bonds, in multiple series in the principal amount of not to exceed \$32,000,000 relating to non-housing purposes and in the principal amount of not to exceed \$12,000,000 for housing purposes (collectively, the "Bonds"), which will be secured by a pledge of and first lien on the tax increment revenues derived from the Redevelopment Project on a parity with the 2004 Bonds; and

**WHEREAS**, in accordance with the requirements of Section 33640 of the Redevelopment Law, the City Council wishes at this time to approve the issuance of the Bonds by the Agency;

**NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED** by the City Council of the City of Santa Cruz that the issuance of the Bonds by the Agency for the purpose of financing qualifying low- and moderate-income housing projects in the City and for the purpose of financing programs, projects and activities of the Agency relating to the Redevelopment Project, is hereby approved.

PASSED AND ADOPTED by the City Council of the City of Santa Cruz at a regular meeting thereof held on the 1st day of March, 2011.

AYES:

NOES:

ABSENT:

DISQUALIFIED:

ATTEST:

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Mayor

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City Clerk

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**FIRST SUPPLEMENT TO  
INDENTURE OF TRUST**

Dated as of March 1, 2011

between the

**REDEVELOPMENT AGENCY OF THE CITY OF  
SANTA CRUZ**

and

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

Relating to

\$ \_\_\_\_\_  
Redevelopment Agency of the City of Santa Cruz  
Merged Earthquake Recovery and  
Reconstruction Project Area  
2011 Taxable Tax Allocation Bonds,  
Series A

\$ \_\_\_\_\_  
Redevelopment Agency of the City of Santa Cruz  
Merged Earthquake Recovery and  
Reconstruction Project Area  
2011 Taxable Housing Tax Allocation Bonds,  
Series B

## FIRST SUPPLEMENT TO INDENTURE OF TRUST

This FIRST SUPPLEMENT TO INDENTURE OF TRUST (this "First Supplement") dated as of March 1, 2011, is between the REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ, a public body corporate and politic duly organized and existing under the laws of the State of California (the "Agency"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

### BACKGROUND:

1. The Agency is a public body, corporate and politic, duly established and authorized to transact business and exercise powers under the provisions of Part 1 of Division 24 of the Health and Safety Code of the State of California (the "Redevelopment Law"), and has the power under the Redevelopment Law to issue bonds for any of its corporate purposes.

2. Under the Redevelopment Law, the Agency and the City Council of the City of Santa Cruz (the "City") have previously adopted a redevelopment plan for the Merged Earthquake Recovery and Reconstruction Project (the "Redevelopment Project"), a duly designated redevelopment project in the City.

3. In order to provide financing for the Redevelopment Project, the Agency has previously issued its Redevelopment Agency of the City of Santa Cruz Merged Earthquake Recovery and Reconstruction Project Area 2004 Tax Allocation Bonds in the aggregate principal amount of \$5,245,000 (the "2004 Bonds"), under an Indenture of Trust dated as of October 1, 2004 (the "2004 Bond Indenture"), between the Agency and BNY Western Trust Company, as trustee.

4. In order to finance additional programs, projects and activities of the Agency relating to the Redevelopment Project, the Agency has authorized the issuance of its Merged Earthquake Recovery and Reconstruction Project Area 2011 Taxable Tax Allocation Bonds, Series A in the aggregate principal amount of \$\_\_\_\_\_ (the "2011 Series A Bonds"), which will be secured by a pledge of and first lien on the tax increment revenues derived from the Redevelopment Project, net of the Housing Tax Revenues (as hereinafter defined).

5. Under Section 33333.2 of the Redevelopment Law, not less than 20 percent of all taxes that are allocated to the Agency under Section 33670 of the Redevelopment Law (the "Housing Tax Revenues") must be used by the Agency for the purposes of increasing, improving, and preserving the supply of low- and moderate-income housing available at affordable housing cost ("Qualified Housing Projects").

6. The Agency has determined to raise funds for Qualified Housing Projects, and for that purpose the Agency has authorized the issuance of its Merged Earthquake Recovery and Reconstruction Project Area 2011 Taxable Housing Tax Allocation Bonds, Series B in the aggregate principal amount of \$\_\_\_\_\_ (the "2011 Series B Bonds"), which will be secured by a pledge of and lien on the Housing Tax Revenues which are derived from the Redevelopment Project, which pledge and lien are on a parity with the pledge and lien which secures a portion of the 2004 Bonds.

7. The Agency is permitted to secure the 2011 Series A Bonds and the 2011 Series B Bonds (collectively, the "2011 Bonds") on a parity with the 2004 Bonds upon satisfaction of the conditions set forth in Section 3.05 of the 2004 Bond Indenture, and the Agency hereby finds and determines that all acts and proceedings required by Section 3.05 of the 2004 Bond Indenture to issue the 2011 Bonds on a parity with the 2004 Bonds have been satisfied.

7. The Agency further hereby finds and determines that all acts and proceedings required by law necessary to make the 2011 Bonds, when executed by the Agency, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the Agency, and to constitute this First Supplement a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done or taken.

#### A G R E E M E N T :

In order to secure the payment of the principal of and the interest on all the Outstanding 2011 Bonds under the 2004 Bond Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the 2011 Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the 2011 Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Agency and the Trustee do hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the 2011 Bonds, as follows:

**SECTION 1. Purpose of this First Supplement.** This First Supplement constitutes a Supplemental Indenture under and as defined in the 2004 Bond Indenture. The purpose of this First Supplement is to authorize the issuance of the 2011 Bonds as Parity Bonds under Section 3.05 of the 2004 Bond Indenture.

**SECTION 2. Supplemental Provisions of Indenture.** In accordance with Sections 3.05 and 7.01(c) of the 2004 Bond Indenture, the 2004 Bond Indenture is hereby amended by adding thereto a new Article X reading in its entirety as follows, and which is hereby incorporated into the 2004 Bond Indenture.

\* \* \* \*

### ARTICLE X

#### ISSUANCE OF 2011 BONDS

SECTION 10.01. *Definitions.* The capitalized terms defined in Section 1.01 of this Indenture have the respective meanings given them in Section 1.02 when used in this Article, except in the case of capitalized terms which are otherwise defined in this Section 10.01. For all purposes of this Article the following terms have the following defined meanings:

"Article" means this Article X of this Indenture.

“Closing Date” means March \_\_, 2011, being the date on which the 2011 Bonds are delivered by the Agency to the Original Purchaser.

“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 2011 Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; and any other cost, charge or fee in connection with the original issuance of the 2011 Bonds.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

“Housing Project Fund” means the fund by that name established and held by the Trustee under Section 10.12.

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

“Original Purchaser” means \_\_\_\_\_, as original purchaser of the 2011 Bonds upon the negotiated sale thereof.

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

- (a) Federal Securities;
- (b) Obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.
- (c) Obligations of any agency, department or instrumentality of the United States of America which are rated A or better by S&P.
- (d) Interest-bearing deposit accounts (including certificates of deposit) in federal or State of California chartered savings and loan associations or in federal or State of California banks (including the Trustee), provided that: (i) the

unsecured obligations of such commercial bank or savings and loan association are rated A or better by S&P; or (ii) such deposits are fully insured by the Federal Deposit Insurance Corporation.

- (e) Commercial paper rated “A-1+” or better by S&P.
- (f) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of “A-1+” or better by S&P.
- (g) 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, which funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services.
- (h) Obligations the interest on which is excludable from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and which are either (a) rated A or better by S&P, or (b) fully secured as to the payment of principal and interest by Permitted Investments described in clauses (a) or (b).
- (i) Obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by S&P.
- (j) Bonds or notes issued by any state or municipality which are rated A or better by S&P.
- (k) Any investment agreement with, or guaranteed by, a financial institution the long-term unsecured obligations or the claims paying ability of which are rated A or better by S&P at the time of initial investment, by the terms of which all amounts invested thereunder are required to be withdrawn and paid to the Trustee in the event either of such ratings at any time falls below A.
- (l) The Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

“Qualified Housing Projects” means programs, projects and activities which increase, improve and preserve the City’s supply of low- and moderate-income housing available at affordable housing cost to persons and families of low or moderate income, which meet all

applicable requirements of Sections 33334.2 and 33334.3 of the Redevelopment Law.

“Redevelopment Fund” means the fund by that name established and held by the Trustee under Section 10.11.

“2011 Bonds” means, collectively, the 2011 Series A Bonds and the 2011 Series B Bonds.

“2011 Costs of Issuance Fund” means the fund by that name established and held by the Trustee under Section 10.10.

“2011 Interest Account” means the account by that name established under Section 10.13 and held by the Trustee as an account within the Debt Service Fund.

“2011 Principal Account” means the account by that name established under Section 10.13 and held by the Trustee as an account within the Debt Service Fund.

“2011 Reserve Account” means the account by that name established under Section 10.13 and held by the Trustee as an account within the Debt Service Fund.

“2011 Reserve Requirement” means, as of any date, the amount of Maximum Annual Debt Service on the Outstanding 2011 Bonds.

“2011 Series A Bonds” means the Redevelopment Agency of the City of Santa Cruz, Merged Earthquake Recovery and Reconstruction Project Area 2011 Taxable Tax Allocation Bonds, Series A, issued by the Agency in the aggregate principal amount of \$\_\_\_\_\_ under Section 10.03

“2011 Series B Bonds” means the Redevelopment Agency of the City of Santa Cruz, Merged Earthquake Recovery and Reconstruction Project Area 2011 Taxable Housing Tax Allocation Bonds, Series B, issued by the Agency in the aggregate principal amount of \$\_\_\_\_\_ under Section 10.03

“2011 Term Bonds” means (a) the 2011 Series A Bonds maturing on October 1 in each of the years \_\_\_\_\_ and \_\_\_\_\_, and (b) the 2011 Series B Bonds maturing on October 1 in each of the years \_\_\_\_\_ and \_\_\_\_\_. Such 2011 Bonds shall constitute “Term Bonds” for all purposes of this Indenture, subject to the provisions of Section 10.20.

SECTION 10.03. *Authorization and Purpose of 2011 Bonds.* The Agency hereby authorizes the issuance of 2011 Series A Bonds in the aggregate principal amount of \$\_\_\_\_\_ under the Redevelopment Law for the purpose of providing funds to finance programs, projects and activities of the Agency relating to the Redevelopment Project. The 2011 Series A Bonds are designated the “Redevelopment Agency of the City of Santa Cruz, Merged Earthquake Recovery and Reconstruction Project Area 2011 Taxable Tax Allocation Bonds, Series A”.



The Agency hereby authorizes the issuance of 2011 Series B Bonds in the aggregate principal amount of \$\_\_\_\_\_ under the Redevelopment Law for the purpose of providing funds to Qualifying Housing Projects. The 2011 Series B Bonds are designated the “Redevelopment Agency of the City of Santa Cruz, Merged Earthquake Recovery and Reconstruction Project Area 2011 Taxable Housing Tax Allocation Bonds, Series B”.

The 2011 Bonds are authorized and issued under, and are subject to the terms of, this Indenture including the terms set forth in this Article. The Agency shall execute and deliver the 2011 Bonds to the Trustee and the Trustee shall authenticate and deliver the 2011 Bonds to the Original Purchaser upon receipt of a Request of the Agency therefor.

The 2011 Bonds constitute Parity Bonds under this Indenture. All references in this Indenture to the Bonds shall apply with full force and effect to the 2011 Bonds, to the extent set forth in Section 10.21.

SECTION 10.04. *Terms of the 2011 Bonds.* The 2011 Bonds are issuable in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no 2011 Bond has more than one maturity date. The 2011 Bonds will be dated as of the Closing Date.

The 2011 Series A Bonds will mature on October 1 in the years and in the respective principal amounts and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the respective rates per annum, as set forth in the following table:

**2011 Series A Bonds**

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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The 2011 Series B Bonds will mature on October 1 in the years and in the respective principal amounts and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the respective rates per annum, as set forth in the following table:

### 2011 Series B Bonds

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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Interest on the 2011 Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (a) a 2011 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (b) a 2011 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any 2011 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the 2011 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any 2011 Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such 2011 Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to the Owner by first-class mail at least 10 days before such special record date.

The Trustee will pay interest on the 2011 Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the 2011 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the Request of the Owner of 2011 Bonds in an aggregate principal amount of at least \$1,000,000, which Request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2011 Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such Request, which Request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the 2011 Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at its Office.

SECTION 10.05. *Redemption of 2011 Bonds.*

(a) Optional Redemption. The 2011 Bonds maturing on or before October 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturity dates. The 2011 Bonds maturing on or after October 1, 20\_\_, are subject to redemption in whole, or in part at the Request of the Agency among maturities on such basis as the Agency shall designate and by lot within a maturity, at the option of the Agency, on any date on or after October 1, 20\_\_, from any available source of funds, at a redemption price equal to 100% of the principal amount of the 2011 Bonds to be redeemed, without premium.

The Agency shall give the Trustee written notice of its intention to redeem 2011 Bonds under this subsection (a), and the manner of selecting such 2011 Bonds for redemption from among the maturities thereof, in sufficient time to enable the Trustee to give notice of such redemption in accordance with subsection (c) of this Section.

(b) Mandatory Sinking Fund Redemption. The 2011 Term Bonds are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on October 1 in the respective years as set forth in the following tables; *provided, however,* that if some but not all of the 2011 Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the 2011 Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Agency to the Trustee).

Sinking Fund  
Redemption Date  
(October 1)

Principal Amount  
To Be Redeemed

(c) Notice of Redemption. The Trustee on behalf and at the expense of the Agency shall mail (by first class mail) notice of any redemption to the Owners of any 2011 Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to the Municipal Securities Rulemaking Board, at least 30 but not more than 60 days prior to the date fixed for redemption; *provided, however,* that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such 2011 Bonds or the cessation of the accrual of interest thereon. Such notice must state the date of the notice, the redemption date, the redemption place and the redemption price and must designate the CUSIP numbers, the 2011 Bond numbers and the maturity or maturities (in the event of redemption of all of the 2011 Bonds of such maturity or maturities in whole) of the 2011 Bonds to be redeemed, and must require that such 2011 Bonds be then surrendered for redemption at the Office of the Trustee identified in such notice, giving notice also that further interest on such 2011 Bonds will not accrue from and after the redemption date. In addition, the redemption notice shall state that the Agency has the right to rescind the notice as provided in subsection (d) of this Section.

(d) Right to Rescind Notice of Redemption. The Agency has the right to rescind any notice of the optional redemption of 2011 Bonds under subsection (a) of this Section by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2011 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The Agency and the Trustee 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 to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to the Municipal Securities Rulemaking Board.

(e) Manner of Redemption. Whenever provision is made in this Section 10.05 for the redemption of less than all of the 2011 Bonds, the Trustee shall select the 2011 Bonds to be redeemed as directed by the Agency or, if no direction is given by the Agency, by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all 2011 Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate 2011 Bonds which may be separately redeemed.

(f) Partial Redemption of 2011 Bonds. If only a portion of any 2011 Bond is called for redemption, then upon surrender of such 2011 Bond the Agency shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Agency, a new 2011 Bond or 2011 Bonds of the same maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2011 Bond to be redeemed.

(g) Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest on the 2011 Bonds so called for redemption have been duly provided, such 2011 Bonds so called shall cease to be entitled to any benefit under this Article other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. Unless otherwise directed in writing by the Agency, the Trustee shall cancel and destroy all 2011 Bonds redeemed under this Section 10.05. The provisions of this subsection (f) are of no effect in the event any notice of the optional redemption of 2011 Bonds is rescinded as provided in subsection (d) of this Section.

(h) Purchase in Lieu of Redemption. In lieu of redemption of 2011 Bonds as provided in this Section 10.05, amounts held by the Trustee for such redemption shall, at the Request of the Agency received by the Trustee prior to the selection of 2011 Bonds for redemption, be applied by the Trustee to the purchase of 2011 Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the Agency may in its discretion direct, but not to exceed the redemption price which would be payable if such 2011 Bonds were redeemed. The aggregate principal amount of 2011 Bonds of the same maturity purchased in lieu of redemption under this subsection (h) may not exceed the aggregate principal amount of 2011 Bonds of such maturity which would otherwise be subject to such redemption. Any 2011 Bonds so purchased in lieu of redemption shall be treated as if such 2011 Bonds were redeemed, for all purposes of this Indenture.

SECTION 10.06. *Book Entry System.* The 2011 Bonds will be initially delivered in the book-entry system of DTC in accordance with the provisions of Section 2.04, all of the terms and provisions of which Section 2.04 shall apply to the 2011 Bonds.

SECTION 10.07. *Form and Execution of 2011 Bonds.* The 2011 Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth in Exhibit C attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Article.

The Chairman of the Agency shall execute, and the Secretary of the Agency shall attest each 2011 Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any 2011 Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any 2011 Bond may be signed and attested on behalf of the Agency by such persons as at the actual date of the execution of such 2011 Bond are the proper officers of the Agency, duly authorized to execute debt instruments on behalf of the Agency, although on the date of such 2011 Bond any such person was not an officer of the Agency.

Only those 2011 Bonds bearing a certificate of authentication in the form set forth in Exhibit C, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such 2011 Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 10.08. *Transfer and Exchange of 2011 Bonds.*

(a) Transfer. Any 2011 Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such 2011 Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any 2011 Bonds under this Section 10.08. Whenever any 2011 Bond is surrendered for transfer, the Agency shall execute and the Trustee shall authenticate and deliver to the transferee a new 2011 Bond or Bonds of like interest rate, maturity, series and aggregate principal amount. The Agency shall pay the cost of printing 2011 Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of 2011 Bonds.

(b) Exchange. The 2011 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2011 Bonds of other authorized denominations and of the same interest rate, series and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any 2011 Bonds under this subsection (b). The Agency shall pay the cost of printing 2011 Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of 2011 Bonds.

(c) Limitations. The Trustee may refuse to transfer or exchange, under the provisions of this Section 10.08, any 2011 Bonds selected by the Trustee for redemption

in accordance with Section 2.03, or any 2011 Bonds during the period established by the Trustee for the selection of 2011 Bonds for redemption.

SECTION 10.09. *Deposit and Application of Proceeds.*

(a) Application of Proceeds of 2011 Series A Bonds. On the Closing Date, the Trustee shall apply the proceeds of the 2011 Series A Bonds in the amounts and for the respective purposes, as follows:

- (i) The Trustee shall deposit the amount of \$\_\_\_\_\_ in the 2011 Costs of Issuance Fund.
- (ii) The Trustee shall deposit the amount of \$\_\_\_\_\_, constituting the of the 2011 Reserve Requirement which is attributable to the 2011 Series A Bonds, in 2011 Reserve Account.
- (iii) The Trustee shall transfer the amount of \$\_\_\_\_\_, constituting the remainder of such proceeds, in the Redevelopment Fund.

(b) Application of Proceeds of 2011 Series B Bonds. On the Closing Date, the Trustee shall apply the proceeds of the 2011 Series B Bonds in the amounts and for the respective purposes, as follows:

- (i) The Trustee shall deposit the amount of \$\_\_\_\_\_ in the 2011 Costs of Issuance Fund.
- (ii) The Trustee shall deposit the amount of \$\_\_\_\_\_, constituting the of the 2011 Reserve Requirement which is attributable to the 2011 Series B Bonds, in 2011 Reserve Account.
- (iii) The Trustee shall transfer the amount of \$\_\_\_\_\_, constituting the remainder of such proceeds, in the Housing Project Fund.

(c) Establishment of Temporary Funds. The Trustee may establish such temporary funds or accounts in its records as it deems appropriate to facilitate and record any of the foregoing deposits and transfers.

SECTION 10.10. *2011 Costs of Issuance Fund.* There is hereby established a separate fund to be known as the "2011 Costs of Issuance Fund", to be held by the Trustee in trust. The Trustee shall disburse moneys in the 2011 Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the Agency stating (a) the person to whom payment is to be made, (b) the amounts to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the 2011 Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior Request of the Agency; in each case together with a statement or invoice for each amount requested thereunder. On June 1, 2011, the Trustee shall transfer any amounts remaining in the 2011 Costs of Issuance Fund to the Redevelopment Fund and to the Housing Project Fund, on a pro rata basis based on the original principal amount of the 2011 Series A Bonds and the 2011 Series B Bonds, respectively.

SECTION 10.11. *Redevelopment Fund*. There is hereby established a separate fund to be held by the Trustee, to be known as the “Redevelopment Fund”. Amounts on deposit in the Redevelopment Fund shall be derived solely from the proceeds of the 2011 Series A Bonds deposited therein on the Closing Date under Section 10.09(a)(iii) and from amounts transferred from the 2011 Costs of Issuance Fund under Section 10.10. The Trustee shall also deposit in the Redevelopment Fund all earnings on the investment and reinvestment of amounts therein. Amounts in the Redevelopment Fund shall be used solely in the manner provided by the Redevelopment Law and the Redevelopment Plan to provide financing for the Redevelopment Project, subject to the limitations set forth herein.

Amounts on deposit in the Redevelopment Fund shall be disbursed by the Trustee for the foregoing purposes upon the receipt of Requests 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 the Redevelopment Fund. Each such Request of the Agency shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

Upon the completion by the Agency of the purposes for which moneys the Redevelopment Fund are intended to be applied, evidenced by a Certificate of the Agency to that effect filed with the Trustee, any remaining amounts in the Redevelopment Fund shall be transferred to the Agency and applied for any lawful purposes, including but not limited to the payment or redemption of Outstanding Bonds. Upon the disbursement of all amounts from the Redevelopment Fund, the Trustee shall close the Redevelopment Fund.

SECTION 10.12. *Housing Project Fund*. There is hereby established a separate account to be held by the Trustee in trust hereunder, to be known as the “Housing Project Fund”. Amounts on deposit in the Housing Project Fund shall be derived solely from the proceeds of the 2011 Series B Bonds deposited therein on the Closing Date under Section 10.09(b)(iii) and from amounts transferred from the 2011 Costs of Issuance Fund under Section 10.10. The Trustee shall also deposit in the Housing Project Fund all earnings on the investment and reinvestment of amounts therein. Amounts in the Housing Project Fund shall be used solely in the manner provided by the Redevelopment Law and the Redevelopment Plan to provide financing for Qualified Housing Projects, subject to the limitations set forth herein.

Amounts on deposit in the Housing Project Fund shall be disbursed by the Trustee for the foregoing purposes upon the receipt of Requests 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 the Housing Project Fund. Each such Request of the Agency shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

Upon the completion by the Agency of the purposes for which moneys the Housing Project Fund are intended to be applied, evidenced by a Certificate of the Agency to that effect filed with the Trustee, any remaining amounts in the Housing Project Fund shall be transferred to the Agency and applied for any lawful purposes, including but not limited to the payment or redemption of Outstanding Bonds. Upon the

disbursement of all amounts from the Housing Project Fund, the Trustee shall close the Housing Project Fund.

SECTION 10.13. *Establishment of Additional Accounts Within the Debt Service Fund.* The Trustee has previously established the Debt Service Fund under Section 4.03, which the Trustee shall continue to hold in trust so long as any of the 2011 Bonds remain Outstanding. In addition to the transfers required to be made from the Special Fund under Section 4.03, the Agency shall transfer amounts on deposit in the Special Fund to the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective special accounts within the Debt Service Fund, which accounts are hereby established with the Trustee, in the following order of priority:

- (a) 2011 Interest Account. On or before the 5<sup>th</sup> Business Day preceding each date on which interest on the 2011 Bonds is due and payable, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the 2011 Interest Account an amount which, when added to the amount then on deposit in the 2011 Interest Account, equals the aggregate amount of the interest coming due and payable on the Outstanding 2011 Bonds on that date. The Trustee shall apply amounts in the 2011 Interest Account solely for the purpose of paying the interest on the 2011 Bonds when due and payable.
- (b) 2011 Principal Account. On or before the 5<sup>th</sup> Business Day preceding each date on which principal of the 2011 Bonds is due and payable at maturity or upon mandatory sinking fund redemption, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the 2011 Principal Account an amount which, when added to the amount then on deposit in the 2011 Principal Account, equals the amount of principal coming due and payable on that date on the Outstanding 2011 Bonds, including the aggregate principal amount of the 2011 Term Bonds which are subject to mandatory sinking fund redemption on that date. The Trustee shall apply amounts in the 2011 Principal Account solely for the purpose of paying the principal of the 2011 Bonds at the maturity thereof or upon mandatory sinking fund redemption.
- (c) 2011 Reserve Account. If the Trustee has actual knowledge that the amount on deposit in the 2011 Reserve Account at any time falls below the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Upon receipt of any such notice, the Agency shall transfer to the Trustee an amount of available Tax Revenues sufficient to maintain the 2011 Reserve Requirement on deposit in the 2011 Reserve Account. The Trustee shall apply amounts in the 2011 Reserve Account solely (i) for the purpose of making transfers to the 2011 Interest Account and the 2011 Principal Account, in that order of priority, on any date on which the principal of or interest on the 2011 Bonds is due and payable hereunder, if there is a deficiency at any time in any of such accounts, or (ii) at any time for the retirement of all the 2011 Bonds then Outstanding. So long as no Event of Default has occurred and is continuing, the Trustee shall withdraw any amount in the 2011



Reserve Account in excess of the 2011 Reserve Requirement on the Business Day preceding each Interest Payment Date and deposit such amount in the 2011 Interest Account.

On the date on which all of the Outstanding Bonds mature or are scheduled to be redeemed, the Agency may (but is not required to) direct that the Trustee apply amounts in the 2011 Reserve Account to pay the principal or redemption price of the Bonds on that date. Any amounts remaining in the 2011 Reserve Account following payment or redemption of the Outstanding Bonds in full shall be withdrawn therefrom by the Trustee and paid to the Agency (or to the City, if so directed in writing by the Agency) to be used for any lawful purposes.

Not later than two Business Days following any withdrawal from the 2011 Reserve Account to replenish the 2011 Interest Account, the 2011 Principal Account or the Sinking Account, the Trustee shall notify the Bond Insurer of such fact by telephone, confirmed in writing, provided that no such notice is required to be given with respect to a withdrawal of amounts in excess of the Reserve Requirement or of withdrawals in connection with the refunding of the Bonds in whole or in part.

SECTION 10.14. *Security for 2011 Bonds.* The 2011 Bonds shall be Parity Bonds which are secured in the manner and to the extent set forth in Article IV and the Redevelopment Law. The 2011 Bonds shall be entitled to all of the benefits of this Indenture without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others.

SECTION 10.15. *Investment of Moneys in Funds.* The Trustee shall invest moneys in the funds and accounts established under this Article X in Permitted Investments defined in Section 10.01, as specified in the Request of the Agency (which Request shall be deemed to include a certification that the specified investment is a Permitted Investment) delivered to the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such direction from the Agency, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (g) of the definition thereof; *provided, however*, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a Request of the Agency designating a specific money market fund and, if no such Request of the Agency is so received, the Trustee shall hold such moneys uninvested.

SECTION 10.16. *Continuing Disclosure.* The Agency will comply with and carry out all of the provisions of the Continuing Disclosure Certificate which has been executed and delivered by the Agency on the Closing Date. Notwithstanding any other provision hereof, failure of the Agency to comply with such Continuing Disclosure Certificate does not constitute an Event of Default hereunder; *provided, however*, that any Participating Underwriter (as that term is defined in such Continuing Disclosure Certificate) or any Owner or beneficial owner of the 2011 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 this Section 10.16.

SECTION 10.17. *Security Interest Representations.* Section 33641.5 of the Redevelopment Law provides statutory authority for pledging collateral for the payment of principal or redemption price of, and interest on, any bonds, and Section 33641.5 of the Redevelopment Law creates a continuing perfected security interest which attaches immediately to such collateral and be effective, binding, and enforceable against the pledgor, its successors, purchasers of the collateral, creditors, and all others asserting the rights therein, to the extent set forth in Section 33641.5, and in accordance with the pledge document irrespective of whether those parties have notice of the pledge and without the need for any physical delivery, recordation, filing, or further act.

In addition, Section 5451 of the Government Code of the State of California provides that the collateral is immediately subject to the pledge, and the pledge constitutes a lien and security interest which immediately attaches to the collateral and is effective, binding, and enforceable against the pledgor, its successors, purchasers of the collateral, creditors, and all others asserting the rights therein, to the extent set forth, and in accordance with, the pledge document irrespective of whether those parties have notice of the pledge and without the need for any physical delivery, recordation, filing, or further act.

Based on the foregoing provisions of California law, the Agency hereby warrants and represents that the Owners have a first priority perfected security interest in the Tax Revenues and other moneys that serve as collateral for the 2011 Bonds in accordance with this Indenture.

SECTION 10.18. *Limitation on Issuance of Additional Parity Debt.* Notwithstanding anything to the contrary in this Resolution, so long as the 2011 Bonds remain Outstanding the Agency shall not issue any Parity Debt unless the amount of Tax Revenues for the then current Fiscal Year, based on assessed valuation of property in the Project Area as evidenced in a written document from an appropriate official of the County, is at least equal to 150% of the amount of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt. The proceeds of any such Parity Debt may be deposited into an escrow fund from which amounts may be released to the Agency to the extent the amount of Tax Revenues for the most recent Fiscal Year (as evidenced in the written records of the County), is at least equal to 150% of the amount of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt.

SECTION 10.19. *Compliance with Plan Limitations.* As provided in Section 5.04, the Agency shall not take any action, including but not limited to the issuance of its bonds, notes or other obligations, which causes or which, with the passage of time, would cause any of the Plan Limitations to be exceeded or violated. The Agency shall manage its fiscal affairs in a manner which ensures that it will have sufficient Tax Revenues available under the Plan Limitations in the amounts and at the times required to enable the Agency to pay the principal of and interest on the Bonds and Parity Debt when due.

Not later than October 1 of each year, the Agency shall calculate the aggregate amount of Tax Revenues which it remains entitled to receive under the Plan Limitations. If the aggregate amount of remaining debt service on all outstanding Bonds and any Parity Debt falls below 85% of the aggregate amount of Tax Revenues which the Agency is permitted to receive under the Plan Limitations, plus the amount then held on

deposit in any fund or account which is set aside by the Agency to make its payments hereunder and the earnings which are reasonably expected to accrue thereon, the Agency shall either (a) deposit with the Trustee an amount of Tax Revenues sufficient to redeem the Bonds in such aggregate principal amount as shall be required to cause the Agency to meet such requirements, or (b) set aside with the Trustee or into a dedicated fund or account to be held by the Agency an amount of Tax Revenues which, together with earnings to be derived from the investment thereof, will be sufficient to enable the Agency to meet such requirements, or (c) decline to accept Tax Revenues from the County in an amount sufficient to enable the Agency to meet such requirements.

SECTION 10.20. *Further Assurances.* The Agency shall adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Article, and for the better assuring and confirming unto the 2011 Bond Owners the rights and benefits provided in this Indenture and this Article.

SECTION 10.21. *Application of this Indenture to 2011 Bonds.* Except as in this Article expressly provided or except to the extent inconsistent with any provision of this Article, the 2011 Bonds shall be deemed to be Bonds under and within the meaning of Section 1.01, and every term and condition contained in the foregoing provisions of this Indenture shall apply to the 2011 Bonds with full force and effect, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Article.

\* \* \* \*

**SECTION 3. Attachment of Exhibit C.** The 2004 Bond Indenture is also hereby further amended by attaching thereto and incorporating therein an Exhibit C setting forth the form of the 2011 Bonds, which shall read in its entirety as set forth in Appendix A which is attached to this First Supplement and by this reference incorporated herein.

**SECTION 4. Partial Invalidity.** If any Section, paragraph, sentence, clause or phrase of this First Supplement is for any reason held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of this First Supplement. The Agency hereby declares that it would have entered into this First Supplement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issue of the 2011 Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses, or phrases of this First Supplement may be held illegal, invalid or unenforceable.

**SECTION 5. Execution in Counterparts.** This First Supplement 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.

**SECTION 6. Governing Law.** This First Supplement shall be construed and governed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ has caused this First Supplement to be signed in its name by its Executive Director and attested to by its Secretary, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., in token of its acceptance of the trusts created hereunder, has caused this First Supplement to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

**REDEVELOPMENT AGENCY OF THE CITY  
OF SANTA CRUZ**

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

Attest:

\_\_\_\_\_  
Secretary

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

By \_\_\_\_\_  
Authorized Officer

**APPENDIX A**  
**EXHIBIT C TO INDENTURE**  
**FORM OF 2011 BOND**

No.

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UNITED STATES OF AMERICA  
STATE OF CALIFORNIA

**REDEVELOPMENT AGENCY OF THE CITY OF  
SANTA CRUZ**

**MERGED EARTHQUAKE RECOVERY AND  
RECONSTRUCTION PROJECT AREA  
2011 TAXABLE TAX ALLOCATION BOND**

RATE OF INTEREST:    MATURITY DATE:    ORIGINAL ISSUE DATE:    CUSIP:

REGISTERED OWNER:    CEDE & CO.

PRINCIPAL AMOUNT:    THOUSAND DOLLARS

The REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ, a public body, corporate and politic, duly organized and existing under the Redevelopment Laws of the State of California (the "Agency"), for value received, hereby promises to pay (but only out of the Tax Revenues and other moneys and securities hereinafter referred to) to the Registered Owner identified above or registered assigns (the "Registered Owner"), on the Maturity Date identified above, the Principal Amount identified above in lawful money of the United States of America; and to pay interest thereon at the Rate of Interest identified above in like lawful money, such interest to be payable semiannually on April 1 and October 1 in each year, commencing October 1, 2011 (the "Interest Payment Dates") until payment of such Principal Amount in full. Interest on this Bond is payable the Interest Payment Date next preceding the date of authentication of this Bond, unless: (a) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15<sup>th</sup> calendar day of the preceding month (a "Record Date"), in which event it will bear interest from such Interest Payment Date, (b) this Bond is authenticated on or before September 15, 2011, in which event interest hereon will be payable from the Original Issue Date identified above, or (c) interest on this Bond is in default as of the date of authentication hereof, in which event interest hereon will be payable from the date to which interest has been paid in full.

The Principal Amount hereof is payable upon presentation hereof at the corporate office of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), in Los Angeles, California or such other place as designated by the Trustee. Interest hereon is payable by check of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof at the address of such Registered Owner as it appears on the registration books of the Trustee as of the preceding Record Date; provided that at the Request of the owner of at least \$1,000,000 aggregate principal amount of Bonds which Request is on file with the Trustee prior to the Record Date immediately preceding any date, interest on such Bonds shall be paid on such Interest Payment Date by wire transfer to such account within the United States of America as shall be specified in such Request.

This Bond is one of a duly authorized issue of bonds of the Agency designated as the "Redevelopment Agency of the City of Santa Cruz, Merged Earthquake Recovery and Reconstruction Project Area 2011 Taxable Tax Allocation Bonds" (the "Bonds") of an aggregate principal amount of \$\_\_\_\_\_, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities or interest rates) and all issued under the provisions of Part 1 of Division 24 of the Health and Safety Code of the State of California, commencing with Section 33000 of said Code (the "Redevelopment Law"). The Bonds have been authorized under an Indenture of Trust dated as of July 1, 2004, as amended and supplemented (as so amended and supplemented, the "Indenture"). The Bonds have been authorized to be issued by the Agency under a resolution of the Agency adopted on January 25, 2011. Reference is hereby made to the Indenture (copies of which are on file at the office of the Agency) and all supplements thereto and to the Redevelopment Law for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Tax Revenues, as that term is defined in the Indenture, and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Agency thereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the Agency to finance programs, projects and activities of the Agency relating to the Merged Earthquake Recovery and Reconstruction Project Area in the City of Santa Cruz, California (the "Project Area"), a duly designated redevelopment project area under the laws of the State of California.

This Bond and the interest hereon and all other parity obligations and the interest thereon (to the extent set forth in the Indenture) are payable from, and are secured by a charge and lien on the Tax Revenues derived by the Agency from the Project Area. The Agency may issue additional obligations on a parity with the Bonds under and in accordance with the Indenture. As and to the extent set forth in the Indenture, all of the Tax Revenues are exclusively and irrevocably pledged in accordance with the terms hereof and the provisions of the Indenture and the Redevelopment Law, to the payment of the principal of and interest on the Bonds and any such parity obligations. Notwithstanding the foregoing, certain amounts out of Tax Revenues may be applied for other purposes as provided in the Indenture.

This Bond is not a debt of the City of Santa Cruz, the State of California, or any of its political subdivisions, and neither said City, said State, nor any of its political subdivisions, is liable hereon nor in any event shall this Bond be payable out of any funds or properties other than the Tax Revenues.

The rights and obligations of the Agency and the owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall permit a change in the terms of maturity of the principal of any outstanding Bond or of any installment of interest thereon or a reduction in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages of the owners required to effect any such modification or amendment.

The Bonds maturing on or before October 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after October 1, 20\_\_, are subject to redemption in whole, or in part at the Request of the Agency among maturities on such basis as the Agency shall designate and by lot within a maturity, at the option of the Agency, on any date on or after October 1, 20\_\_, from any available source of funds, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, without premium.

The Bonds maturing on October 1 in each of the years \_\_\_\_\_ and \_\_\_\_\_ are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on October 1 in the respective years as set forth in the following tables; *provided, however*, that if some but not all of such Bonds have been redeemed under the optional redemption provisions described above, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the Agency to the Trustee).

Sinking Fund  
Redemption Date  
(October 1)

Principal Amount  
To Be Redeemed

As provided in the Indenture, the Trustee is required to mail notice of redemption of any Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before the redemption date, to the registered owners of the Bonds to be redeemed, but neither failure to receive such notice nor any defect in the notice so mailed affects the sufficiency of the proceedings for prepayment or the cessation of accrual of interest thereon. Any notice so given by the Trustee may be rescinded under the circumstances and with the effect set forth in the Indenture. If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest hereon will cease to accrue from and after the date fixed for redemption.

If an Event of Default occurs under and as defined in the Indenture, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at said corporate Office of the Trustee in Los

Angeles, California, or such other place as designated by the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer a new Bond or Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor.

The Agency and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Agency and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Redevelopment Law and the Redevelopment Laws of the State of California and that the amount of this Bond, together with all other indebtedness of the Agency, does not exceed any limit prescribed by the Redevelopment Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Trustee for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond is not entitled to any benefit under the Indenture and is not valid or obligatory for any purpose until the certificate of authentication hereon endorsed has been signed by the Trustee.

IN WITNESS WHEREOF, the REDEVELOPMENT AGENCY OF THE CITY OF SANTA CRUZ has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its Chairman and its facsimile seal impressed hereon and attested to by the facsimile signature of its Secretary, all as of the Original Issue Date specified above.

**REDEVELOPMENT AGENCY OF THE  
CITY OF SANTA CRUZ**

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_



Secretary

**TRUSTEE'S CERTIFICATE OF AUTHENTICATION**

This is one of the Bonds described in the within-mentioned Indenture.

Dated:

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

By \_\_\_\_\_  
Authorized Signatory

**ASSIGNMENT**

For value received the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ whose address and social security or other tax identifying number is \_\_\_\_\_, the within-mentioned Bond and hereby \_\_\_\_\_ irrevocably constitute(s) \_\_\_\_\_ and appoint(s) \_\_\_\_\_ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Note: Signature(s) must be guaranteed by an eligible guarantor institution.

\_\_\_\_\_  
Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.