

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based on existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and the compliance with certain covenants, interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2005 Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2005 Bonds. See "TAX MATTERS."

\$10,190,000
REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
CENTRAL FOLSOM REDEVELOPMENT PROJECT
TAX ALLOCATION BONDS, SERIES 2005

Dated: Date of Delivery

Due: August 1, as shown below

The \$10,190,000 aggregate principal amount of Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Tax Allocation Bonds, Series 2005 (the "Series 2005 Bonds") will be issued by the Redevelopment Agency of the City of Folsom (the "Redevelopment Agency") to (i) provide funds to pay a portion of the costs of constructing a new library facility, an adjacent baseball field and related improvements and infrastructure; (ii) make a deposit to a reserve account in an amount equal to the Series 2005 Reserve Account Requirement (as defined in the Indenture); (iii) fund the interest due on the Series 2005 Bonds through August 1, 2007; and (iv) pay the costs of issuance of the Series 2005 Bonds.

The Series 2005 Bonds will be issued in book-entry only form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2005 Bonds. Purchasers of the Series 2005 Bonds will not receive physical certificates representing their interests in the Series 2005 Bonds. Individual purchases of the Series 2005 Bonds will be made in the minimum denomination of \$5,000 or any integral multiple thereof.

Interest on the Series 2005 Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2006. Payments of principal of and interest on the Series 2005 Bonds shall be payable directly to DTC by Union Bank of California, N.A., San Francisco, California, as trustee (the "Trustee"). Upon receipt of payments of such principal and interest, DTC will in turn remit such payments to Participants, defined herein, in DTC for subsequent disbursement to the Beneficial Owners, defined herein, of the Series 2005 Bonds. So long as the Series 2005 Bonds are registered in the name of Cede & Co., all payments with respect to the Series 2005 Bonds will be made to DTC. See "THE SERIES 2005 BONDS" and APPENDIX E—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Series 2005 Bonds are subject to redemption prior to maturity. See "THE SERIES 2005 BONDS—Redemption Provisions."

The Series 2005 Bonds are special obligations of the Redevelopment Agency and are payable solely from and secured by a pledge of Tax Revenues (as defined herein) and certain other funds held by the Trustee pursuant to the Indenture of Trust, dated as of July 1, 1997, as supplemented by the First Supplemental Indenture of Trust, dated as of August 1, 2005 (collectively, the "Indenture"), each between the Redevelopment Agency and the Trustee. The Series 2005 Bonds are secured by a pledge of Tax Revenues on a parity with \$4,405,000 outstanding principal amount of the Redevelopment Agency's Central Folsom Redevelopment Project Refunding Tax Allocation Bonds, Series 1997. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS."

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



THE SERIES 2005 BONDS ARE NOT A DEBT OR LIABILITY OF THE CITY OF FOLSOM, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE REDEVELOPMENT AGENCY), AND NEITHER THE CITY OF FOLSOM, THE STATE OF CALIFORNIA NOR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE REDEVELOPMENT AGENCY) IS LIABLE THEREON. IN NO EVENT SHALL THE SERIES 2005 BONDS OR ANY INTEREST OR REDEMPTION PREMIUM THEREON BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE REDEVELOPMENT AGENCY AS SET FORTH IN THE INDENTURE. THE REDEVELOPMENT AGENCY HAS NO POWER TO LEVY OR COLLECT TAXES.

MATURITY SCHEDULE, INTEREST RATES, YIELDS AND CUSIPS

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No.†	Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP No.†
2014	\$335,000	4.000%	3.750%	344395BJ6	2019	\$410,000	4.000%	4.200%	344395BP2
2015	350,000	4.000	3.900	344395BK3	2020	425,000	4.250	4.300	344395BQ0
2016	365,000	4.000	4.000	344395BL1	2021	440,000	4.250	4.380	344395BR8
2017	375,000	4.000	4.100	344395BM9	2022	460,000	4.250	4.430	344395BS6
2018	390,000	4.000	4.150	344395BN7	2023	480,000	4.250	4.480	344395BT4

\$3,365,000 4.500% Term Bonds Due August 1, 2029—Yield: 4.580%—CUSIP No. † 344395BZ0
\$2,795,000 4.500% Term Bonds Due August 1, 2033 Yield: 4.630% CUSIP No. † 344395CD8

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This cover page contains certain information for general reference only. It is not a summary of the security of this issue. Potential investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Series 2005 Bonds. Investment in the Series 2005 Bonds offered hereunder involves risk. See "SPECIAL RISK FACTORS" for a discussion of risk factors that should be considered in evaluating the investment quality of the Series 2005 Bonds.

The Series 2005 Bonds are offered when, as and if issued, subject to the approval of the legality thereof by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Redevelopment Agency by the Interim City Attorney of the City of Folsom, as Interim General Counsel to the Redevelopment Agency and by Lofton & Jennings, San Francisco, California, Disclosure Counsel. It is anticipated that the Series 2005 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 25, 2005.

No dealer, broker, salesperson or other person has been authorized by the Redevelopment Agency, the City of Folsom (the "City") or the Underwriter to give any information or to make any representations, other than those contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2005 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2005 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from official sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Redevelopment Agency since the date hereof. All discussions of certain provisions contained herein of the Indenture or 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, which such documents in their entirety are on file with the Trustee.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking" statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended and Section 27A of the United States Securities Act of 1933 as amended. Such statements are generally identifiable by the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions. The achievement of certain results or other expectations contained in such forward-looking statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. No assurance is given that actual results will meet the forecasts of the Redevelopment Agency in any way, regardless of the optimism communicated in the information, and such statements speak only as of the date of this Official Statement. The Redevelopment Agency disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the expectations of the Redevelopment Agency with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under 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.

This Official Statement is submitted in connection with the sale of the Series 2005 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, AND SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2005 BONDS TO CERTAIN DEALERS AND INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

SECURITIES PRODUCTS AND SERVICES ARE OFFERED THROUGH PIPER JAFFRAY & CO., MEMBER SIPC AND NYSE, INC.

NOT FDIC INSURED

NO BANK GUARANTEE

MAY LOSE VALUE

REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM

REDEVELOPMENT AGENCY GOVERNING BOARD/CITY COUNCIL

Stephen E. Miklos, *Chair and Mayor*
Andy Morin, *Vice Chair and Vice Mayor*
Kerri Howell, *Member and Councilmember*
Eric King, *Member and Councilmember*
Jeff Starsky, *Member and Councilmember*

AGENCY STAFF/CITY STAFF

Martha Clark Lofgren, *Executive Director and City Manager*
Navdeep S. Gill, *Finance Officer and Finance Director*
Bruce Cline, Esq., *Interim General Counsel and Interim City Attorney*
Christa Schmidt, *Secretary and City Clerk*

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San Francisco, California

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OFFICIAL STATEMENT

\$10,190,000
REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
CENTRAL FOLSOM REDEVELOPMENT PROJECT
TAX ALLOCATION BONDS, SERIES 2005

INTRODUCTION

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

Authorization

The purpose of this Official Statement, including the cover page and the appendices hereto, is to furnish certain information with respect to the sale and delivery of \$10,190,000 aggregate principal amount of the Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Tax Allocation Bonds, Series 2005 (the "Series 2005 Bonds"). The Series 2005 Bonds are being issued by the Redevelopment Agency of the City of Folsom (the "Redevelopment Agency") pursuant to authority granted under the Community Redevelopment Law (constituting Part 1 of Division 24 of the Health and Safety Code of the State of California) (the "Redevelopment Law"). On July 26, 2005, the Redevelopment Agency adopted Resolution No. 219-R (the "Resolution") which authorized the issuance, sale and delivery of the Series 2005 Bonds. The Series 2005 Bonds will be issued under and secured by an Indenture of Trust dated as of July 1, 1997, as supplemented by a First Supplemental Indenture of Trust, dated as of August 1, 2005 (collectively, the "Indenture"), each by and between the Redevelopment Agency and Union Bank of California, N.A., as trustee (the "Trustee").

Purpose

The Series 2005 Bonds are being issued by the Redevelopment Agency to (i) provide funds to pay a portion of the cost of constructing a new library facility, an adjacent baseball field and related improvements and infrastructure; (ii) to make a deposit to a reserve account in an amount equal to the Series 2005 Reserve Account Requirement (as defined in the Indenture); (iii) fund the interest due on the Series 2005 Bonds through August 1, 2007; and (iv) to pay certain costs incidental to the issuance of the Series 2005 Bonds. The Series 2005 Bonds shall mature in the years and amounts and bear interest at the rates as set forth on the cover page hereof.

Security for the Series 2005 Bonds

The Series 2005 Bonds are limited obligations of the Redevelopment Agency payable solely from and secured solely by a pledge of Tax Revenues (defined herein) and certain other funds held by the Trustee pursuant to the Indenture. The Series 2005 Bonds are secured by a pledge of Tax Revenues on a parity with \$4,405,000 outstanding principal amount of the Redevelopment Agency's Central Folsom Redevelopment Project Refunding Tax Allocation Bonds, Series 1997 (the "Series 1997 Bonds" and, together with the Series 2005 Bonds and any Additional Bonds issued in the future, the "Bonds"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS."

Pursuant to the Redevelopment Law, a portion of all property tax revenues collected by or for each taxing agency on any increase in the taxable value of certain property within the Central Folsom Redevelopment Project Area (the "Project Area") over that shown on the assessment rolls for the base year applicable to the Project Area may be pledged to the repayment of indebtedness incurred by the Redevelopment Agency in connection with redevelopment in the Project Area.

The Indenture establishes a Reserve Account which will be available for the payment of the principal of and interest on the Series 2005 Bonds to the extent other moneys are not available therefor. The amount deposited in the Reserve Account will equal the Series 2005 Reserve Account Requirement upon issuance of the Series 2005 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Reserve Account."

THE SERIES 2005 BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER SAID CITY, STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE REDEVELOPMENT AGENCY) IS LIABLE THEREFOR. THE SERIES 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMIT OR RESTRICTION. THE REDEVELOPMENT AGENCY HAS NO POWER TO LEVY OR COLLECT TAXES.

Financial Guaranty Insurance

The scheduled payment of principal of and interest on the Series 2005 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2005 Bonds by Ambac Assurance Corporation (the "Bond Insurer"). For additional information regarding the financial guaranty insurance policy and the Bond Insurer, see "FINANCIAL GUARANTY INSURANCE" and APPENDIX G—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

Redemption Provisions

The Series 2005 Bonds are subject to redemption prior to their respective stated maturities. See "THE SERIES 2005 BONDS—Redemption Provisions."

Additional Bonds

Under the Indenture, the Redevelopment Agency may issue from time to time Additional Bonds secured by Tax Revenues on a parity with the Series 2005 Bonds, provided certain conditions precedent to the issuance of such Additional Bonds are satisfied. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Conditions for the Issuance of Additional Bonds."

Special Risk Factors

Investment in the Series 2005 Bonds involves risks, as discussed herein and under the caption "SPECIAL RISK FACTORS."

Amendment of the Indenture

The Agency and the Trustee have agreed upon certain amendments to the Indenture which would permit the Agency (rather than the Trustee) to hold the Special Fund described herein and would permit a revision to the definition of "Reserve Account Requirement." The amendments would take effect when no Series 1997 Bonds remain Outstanding. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF

THE INDENTURE—Certain Amendments to Indenture.” By acceptance of and payment for the Series 2005 Bonds, the purchasers thereof are deemed to have consented to such amendments.

Continuing Disclosure

The Redevelopment Agency has covenanted for the benefit of the holders and beneficial owners of the Series 2005 Bonds to provide certain financial information and operating data relating to the Redevelopment Agency by not later than 270 days following the end of the Redevelopment Agency’s fiscal year (presently ending June 30) (the “Annual Report”), commencing with the Annual Report for the 2004-05 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Redevelopment Agency with each Nationally Recognized Municipal Securities Information Repository and with the state information repository, if any. The notices of material events will be filed by the Redevelopment Agency with the Municipal Securities Rulemaking Board and with the state information repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5).

Certain Information Related to this Official Statement

Brief descriptions of the Series 2005 Bonds, the security and sources of repayment for the Series 2005 Bonds, the Indenture, the Redevelopment Agency and the City are presented herein. Such references and descriptions do not purport to be comprehensive or definitive. All references herein to various documents are qualified in their entirety by reference to the form thereof and the information with respect thereto included in said documents. Copies of documents may be obtained, at the expense of the person making such request, from the Redevelopment Agency at 50 Natoma Street, Folsom, California 95630.

All capitalized terms used herein and not otherwise defined shall have the same meanings as set forth in the Indenture. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Definitions.”

ESTIMATED SOURCES AND USES OF PROCEEDS OF THE SERIES 2005 BONDS

The sources and uses of funds are estimated as follows:

Sources:	
Bond Proceeds	\$10,190,000.00
Less Original Issue Discount.....	<u>(136,693.85)</u>
Total Sources	\$10,053,306.15
Uses:	
Deposit to Redevelopment Fund.....	\$8,000,000.00
Deposit to Interest Account ⁽¹⁾	856,297.50
Deposit to Reserve Account.....	780,900.00
Costs of Issuance ⁽²⁾	<u>416,108.65</u>
Total Uses	\$10,053,306.15

⁽¹⁾ To fund the interest due on the Series 2005 Bonds through August 1, 2007.

⁽²⁾ Includes Bond Counsel fees, Disclosure Counsel fees, fees of the Financial Advisor, Underwriter’s Discount, the initial fees of the Trustee, rating agency fees, printing costs and fees, financial guaranty insurance premium and other miscellaneous expenses.

THE SERIES 2005 BONDS

General

The Series 2005 Bonds will be issued in an aggregate principal amount of \$10,190,000 in denominations of \$5,000 or any integral multiple thereof, will be dated the date of issuance thereof and will mature on August 1 of the years and in the amounts set forth on the cover page hereof. Interest on the Series 2005 Bonds is payable at the rates set forth on the cover page hereof, commencing February 1, 2006 and semiannually thereafter on August 1 and February 1 of each year.

The Series 2005 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC,” together with any successor securities depository, the “Securities Depository”). DTC will act as Securities Depository for the Series 2005 Bonds so purchased. Individual purchases will be made only in book-entry form. Purchasers will not receive physical certificates representing their beneficial ownership interest in the Series 2005 Bonds. So long as the Series 2005 Bonds are registered in the name of Cede & Co., payment of principal of, premium, if any, and interest on the Series 2005 Bonds will be payable to DTC or its nominee. DTC in turn will remit such payments to DTC Participants for subsequent disbursement to the Beneficial Owners. See APPENDIX E—“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

THE SERIES 2005 BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER SAID CITY, STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE REDEVELOPMENT AGENCY) IS LIABLE THEREFOR NOR IN ANY EVENT SHALL THE SERIES 2005 BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AGENCY PLEDGED THEREFOR AS PROVIDED IN THE INDENTURE. THE SERIES 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMIT OR RESTRICTION AND NEITHER THE MEMBERS OF THE AGENCY NOR ANY PERSONS EXECUTING THE SERIES 2005 BONDS ARE LIABLE PERSONALLY THEREON BY REASON OF THEIR ISSUANCE.

Redemption Provisions

Optional Redemption. Series 2005 Bonds maturing on or prior to August 1, 2015 shall not be subject to optional redemption prior to their respective stated maturities. Series 2005 Bonds maturing on or after August 1, 2016 shall be subject to optional redemption prior to their respective maturity dates at the option of the Redevelopment Agency, as a whole or in part (in such maturities as are designated by the Redevelopment Agency), on any date on or after August 1, 2015 from any source, at a redemption price equal to 100% of the principal amount of Series 2005 Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Account Redemption.

The Series 2005 Term Bonds maturing on August 1, 2029 (the “2029 Term Bonds”) are subject to mandatory redemption prior to their stated maturity date, in part by lot, from Mandatory Sinking Account Payments deposited in the 2029 Term Bond Sinking Account pursuant to the Indenture on any August 1 on or after August 1, 2024, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal Amount</u> <u>Redeemed</u>
2024	\$500,000
2025	525,000
2026	545,000
2027	570,000
2028	600,000
2029†	625,000

† Maturity.

The Series 2005 Term Bonds maturing on August 1, 2033 (the “2033 Term Bonds”) are subject to mandatory redemption prior to their stated maturity date, in part by lot, from Mandatory Sinking Account Payments deposited in the 2033 Term Bond Sinking Account pursuant to the Indenture on any August 1 on or after August 1, 2030, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

<u>Redemption Date</u> <u>(August 1)</u>	<u>Principal Amount</u> <u>Redeemed</u>
2030	\$655,000
2031	680,000
2032	715,000
2033†	745,000

† Final maturity.

Selection of Series 2005 Bonds for Redemption. If less than all of the Outstanding Series 2005 Bonds maturing on any one date are called for redemption at any one time, the Trustee shall select the Series 2005 Bonds to be redeemed from the Outstanding Series 2005 Bonds maturing on such date not previously selected for redemption by lot in any manner which the Trustee deems fair.

Notice of Redemption. Except as otherwise provided in the Indenture, notice of redemption will be sent by the Trustee by first class mail postage paid at least 30 but not more than 60 days prior to the date fixed for redemption to: (i) the Owners of Series 2005 Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee as of the 15th day prior to the date of mailing of such notice; (ii) one or more Information Services; and (iii) the Securities Depositories. Failure of any Owner to receive such notice mailed to such Owner shall not invalidate the proceedings for the redemption.

Notwithstanding any contrary provision, the Trustee may rescind a scheduled redemption of Series 2005 Bonds as to which notice has been given as aforesaid by giving notice of the rescission to the same persons as the original notice of redemption by first class mail at least seven (7) days prior to the scheduled redemption date. Upon the mailing of such notice of rescission, the scheduled redemption of such Series 2005 Bonds shall be cancelled, and no Owner of such Series 2005 Bonds shall be entitled to the redemption thereof on such date. Failure to receive such notice of rescission shall not invalidate any of the proceedings taken in connection with such rescission.

Partial Redemption of Series 2005 Bonds. Upon surrender of any Series 2005 Bond redeemed in part only, the Redevelopment Agency shall execute and the Trustee shall authenticate and deliver to the Owner, at the expense of the Redevelopment Agency, a new Series 2005 Bond or Bonds in authorized denominations equal to the aggregate principal amount of the unredeemed principal amount of the Series 2005 Bonds so surrendered and of the same interest rate and maturity.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture and not rescinded as described above, and moneys for payment of the redemption price of the Series 2005 Bonds are held by the Trustee, then on the redemption date designated in such notice, the Series 2005 Bonds or portions thereof so called for redemption shall become due and payable at the redemption price specified in such notice. From and after the designated redemption date, interest on the Series 2005 Bonds or portions thereof called for redemption shall cease to accrue, such Series 2005 Bonds or portions thereof shall cease to be entitled to any benefit or security under the Indenture and the Owners of such Series 2005 Bonds will have no rights in respect thereof except to receive payment of the redemption price.

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Debt Service Schedule

The following table sets forth the debt service requirements for the Series 2005 Bonds.

Bond Year Ending <u>August 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	—	\$413,385.00	\$413,385.00
2007	—	442,912.50	442,912.50
2008	—	442,912.50	442,912.50
2009	—	442,912.50	442,912.50
2010	—	442,912.50	442,912.50
2011	—	442,912.50	442,912.50
2012	—	442,912.50	442,912.50
2013	—	442,912.50	442,912.50
2014	\$335,000	442,912.50	777,912.50
2015	350,000	429,512.50	779,512.50
2016	365,000	415,512.50	780,512.50
2017	375,000	400,912.50	775,912.50
2018	390,000	385,912.50	775,912.50
2019	410,000	370,312.50	780,312.50
2020	425,000	353,912.50	778,912.50
2021	440,000	335,850.00	775,850.00
2022	460,000	317,150.00	777,150.00
2023	480,000	297,600.00	777,600.00
2024	500,000	277,200.00	777,200.00
2025	525,000	254,700.00	779,700.00
2026	545,000	231,075.00	776,075.00
2027	570,000	206,550.00	776,550.00
2028	600,000	180,900.00	780,900.00
2029	625,000	153,900.00	778,900.00
2030	655,000	125,775.00	780,775.00
2031	680,000	96,300.00	776,300.00
2032	715,000	65,700.00	780,700.00
2033	<u>745,000</u>	<u>33,525.00</u>	<u>778,525.00</u>
TOTAL	\$10,190,000	\$8,888,985.00	\$19,078,985.00

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS

General

The Series 2005 Bonds are limited obligations of the Redevelopment Agency and are payable as to principal and interest exclusively from Tax Revenues, and the Agency is not liable to pay them except from Tax Revenues. The Series 2005 Bonds are secured by a pledge of all Tax Revenues and are also secured by a pledge of the moneys and investments in certain funds established under the Indenture, including the Reserve Account. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Special Fund."

The pledge of Tax Revenues (as defined below) in each Bond Year will be in an amount equal to Annual Debt Service payable on the Bonds and any Additional Bonds, which amount may be increased, as set forth in the following sentence, for such Bond Year. Tax Revenues is defined under the Indenture to mean, for each Fiscal Year, commencing with the 1997-98 Fiscal Year, the taxes eligible for allocation to the Redevelopment Agency pursuant to the Redevelopment Law (exclusive of: (i) amounts, if any, not exceeding 20% of certain of such taxes which may be required by law to be set aside for certain housing purposes; (ii) amounts, if any, received pursuant to Section 16111 of the Government Code; and (iii) amounts payable pursuant to Sections 33607.5 and 33607.7 of the Redevelopment Law, except to the extent such payments are expressly subordinate to the payment of the principal of, premium, if any, and interest on the Bonds and any Additional Bonds), together with all payments, reimbursements and subventions, if any, specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations, in an amount equal to Annual Debt Service for the corresponding Bond Year, which amount, upon an insufficiency in any Bond Year in the Special Fund of the Redevelopment Agency or any of the accounts established therein, shall be increased up to an amount sufficient to replenish said funds and accounts.

Pursuant to the Indenture, all the Tax Revenues and all money in the Special Fund (hereinafter identified), and in the funds or accounts so specified and provided for in the Indenture (except the Rebate Fund), are irrevocably pledged to the punctual payment of the interest on, principal of and redemption premium, if any, on the Bonds and all Additional Bonds, and the Tax Revenues and such other money shall not be used for any other purpose while the Bonds and any Additional Bonds remain Outstanding, except as provided in the Indenture. Such pledge constitutes a first lien on the Tax Revenues and such other money for the payment of the Bonds and all Additional Bonds in accordance with the terms thereof.

All the Tax Revenues, together with any interest earned thereon, shall, so long as the Bonds and any Additional Bonds shall be Outstanding, be deposited when and as received by the Redevelopment Agency in the "Redevelopment Agency of the City of Folsom, Central Folsom Redevelopment Project Special Fund" (the "Special Fund"), which fund the Redevelopment Agency has covenanted to maintain with the Trustee so long as the Bonds and any Additional Bonds shall be Outstanding under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Special Fund." Notwithstanding the foregoing, there need not be deposited in the Special Fund any Tax Revenues in an amount in excess of that amount which, together with all money then on deposit with the Trustee in the Special Fund and the accounts therein, shall be sufficient to discharge all Outstanding Bonds and any Additional Bonds as provided in the Indenture. See APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Amendments to Indenture."

Pledge and Allocation of Tax Increments

Under the provisions of the California Constitution, the Redevelopment Law and the Redevelopment Plan, taxes levied upon taxable property in the Project Area each year by any taxing agency will be allocated according to the following procedures.

Taxes, if any, levied upon the taxable property in the Project Area each year by or for the benefit of the State, the City, the County of Sacramento (the "County"), any district or other public corporation (hereinafter sometimes called "taxing agencies"), after the effective date of the ordinance approving the Redevelopment Plan shall be divided as provided in the Redevelopment Law.

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 such taxing agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of such ordinance shall be allocated to and, when collected, shall be paid into the funds of the respective taxing agencies as all other taxes by or for said taxing agencies are paid.

That portion of said levied taxes each year in excess of such amount shall be allocated to and, when collected, shall be paid into a special fund of the Redevelopment Agency to pay the principal of and interest on loans, monies advanced to, or indebtedness (whether funded, refunded, assumed or otherwise) incurred by the Redevelopment Agency to finance or refinance, in whole or in part, the projects in the Project Area. Unless and until the total assessed valuation of the taxable property in a redevelopment project exceeds the total assessed value of the taxable property in such project as shown by the last equalized assessment roll referred to in the preceding paragraph, all of the taxes levied and collected upon the taxable property in the redevelopment project shall be paid into the funds of the respective taxing agencies. When said loans, advances and indebtedness, if any, and interest thereon, have been paid then all monies 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.

A redevelopment agency's allocable share of the taxes collected upon any increase in assessed valuation over the base roll may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing projects. The Redevelopment Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis or provision of additional sources of income to taxing agencies having the effect of reducing the property tax rate must necessarily reduce the amount of tax allocations that would otherwise be available to pay the principal of, and interest on, the Series 2005 Bonds. See "SPECIAL RISK FACTORS" and "LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS." Likewise, broadened property tax exemptions or any limitation on the rate of taxation by taxing agencies could have a similar effect.

Special Fund

The Indenture is being amended, effective upon payment or defeasance in full of the 1997 Bonds, to provide for the Agency holding the Special Fund. See "-Amendment of the Indenture" below.

All Tax Revenues, when and as received, will be received by the Redevelopment Agency in trust and will be immediately deposited by the Redevelopment Agency with the Trustee in the Special Fund and will be accounted for through and held in trust in the Special Fund, and the Redevelopment Agency shall have no beneficial right or interest in any of such money, except as provided in the Indenture. All such Tax Revenues, whether received by the Redevelopment Agency in trust, or deposited with the Trustee, shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture

and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Redevelopment Agency.

Pursuant to the Indenture, all Tax Revenues in the Special Fund are set aside by the Trustee in each Bond Year in the following respective special accounts within the Special Fund for the benefit of the Bonds and all Additional Bonds in the following order of priority:

First. Interest Account. On or before each Interest Payment Date, the Trustee shall set aside from the Special Fund and deposit in the Interest Account an amount of money which, together with any money contained therein, is equal to the amount of the interest becoming due and payable on all Outstanding Bonds on the next Interest Payment Date. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds on the Interest Payment Dates in such Bond Year. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Second. Principal Account. On or before each Principal Payment Date, the Trustee shall set aside from the Special Fund and deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of principal becoming due and payable on all Outstanding Serial Bonds on the Principal Payment Date in such Bond Year. No deposit need be made into the Principal Account if the amount contained therein is at least equal to the aggregate amount of principal of all Outstanding Serial Bonds becoming due and payable on the Principal Payment Date in such Bond Year. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying principal of the Serial Bonds as they shall become due and payable. In the event that there shall be insufficient money in the Special Fund to pay in full all such principal and Sinking Account Installments due pursuant to the Indenture in such Bond Year, then the money available in the Special Fund shall be applied pro rata to the payment of such principal and Sinking Account Installments in the proportion which all such principal and Sinking Account Installments bear to each other.

Third. Term Bonds Sinking Account. On or before each Sinking Account Payment Date, the Trustee shall deposit in the Term Bonds Sinking Account an amount of money which, together with any money contained therein, is equal to the Sinking Account Installments payable on the Sinking Account Payment Date in such Bond Year. No deposit need be made in the Term Bonds Sinking Account if the amount contained therein is at least equal to the aggregate amount of all Sinking Account Installments required to be made on the Sinking Account Payment Date in such Bond Year. All moneys in the Term Bonds Sinking Account shall be used and withdrawn by the Trustee solely for the purpose of purchasing or redeeming the Term Bonds in accordance with the Indenture.

Fourth. Reserve Accounts. On or before August 1 each year, the Trustee shall set aside from the Special Fund (or subject to the terms of any Supplemental Indenture, transfer from an escrow fund created thereunder) and deposit, on a parity basis, in the Reserve Accounts such amounts as may be necessary to maintain on deposit therein amounts equal to the respective Reserve Account Requirements. No deposit need be made into any Reserve Account so long as there shall be on deposit therein an amount equal to the respective Reserve Account Requirement. All money in or credited to the Reserve Accounts shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account or the Term Bonds Sinking Account in such order, in the event of any deficiency in any of such accounts occurring on any Interest Payment Date, Principal Payment Date or Sinking Account Payment Date, or for the purpose of paying the interest on or the principal of the applicable Series of Bonds in the event that no other money of the Redevelopment Agency is lawfully available

therefor, or for the retirement of all Bonds of the applicable Series then Outstanding, except that for so long as the Redevelopment Agency is not in default under the Indenture, any amount in the Reserve Accounts in excess of the respective Reserve Account Requirements shall be withdrawn from the Reserve Accounts by the Trustee and transferred to the Surplus Account.

Fifth. Surplus Account. After making the deposits referred to in paragraphs first through forth above in such Bond Year, the Trustee shall set aside from the Special Fund and deposit in the Surplus Account all money then remaining in the Special Fund. On August 2 of each year if the Redevelopment Agency is not then in default under the Indenture, the Trustee shall transfer the money in the Surplus Account to the Redevelopment Agency for deposit in the Redevelopment Fund unless, upon the Written Request of the Redevelopment Agency, the Trustee is instructed to purchase Bonds. Notwithstanding the foregoing, the Trustee shall first use any funds in the Surplus Account solely for the purpose of replenishing the other accounts in the Special Fund, in the event of any deficiency at any time in any of such accounts occurring on any Interest Payment Date, Principal Payment Date or Sinking Account Payment Date, or for the purpose of paying the interest on or the principal of or redemption premium, if any, on the Bonds in the event that no other money of the Redevelopment Agency is lawfully available therefor, or for the retirement (together with other available money) of all Bonds then Outstanding.

Reserve Account

Pursuant to the Indenture, the Redevelopment Agency is required to deposit and maintain in the Series 2005 Reserve Account an amount equal to the Series 2005 Reserve Account Requirement. The Series 2005 Reserve Account Requirement may be satisfied by the deposit into the Series 2005 Reserve Account of a policy of insurance or other credit device or any combination thereof which, together with money on deposit in the Series 2005 Reserve Account, is equal to the Series 2005 Reserve Account Requirement. Amounts on deposit in the Series 2005 Reserve Account are available to pay debt service on the Series 2005 Bonds. See APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Amendments to the Indenture.”

Investment of Funds

Moneys in the Interest Account, the Principal Account, the Term Bonds Sinking Account, the Reserve Accounts and the Surplus Account in the Special Fund, upon the Written Request of the Redevelopment Agency, shall be invested by the Trustee in Permitted Investments. In the absence of a the Written Request of the Redevelopment Agency for the investment of moneys held in any fund or account held by the Trustee, the Trustee shall invest moneys in certain Permitted Investments as described in the Indenture. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Investment of Moneys in Funds and Accounts.”

Issuance of Additional Bonds

The Redevelopment Agency may at any time after the issuance and delivery of the Series 2005 Bonds issue a series of Additional Bonds payable from the Tax Revenues and secured by a lien and charge upon the Tax Revenues equal to and on a parity with the lien and charge securing the Outstanding Bonds theretofore issued under the Indenture, including the Bonds, provided, among other things, that:

(i) A Certificate of the Redevelopment Agency shall have been filed with the Trustee to the effect that the Redevelopment Agency shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indentures, and no event of default shall have occurred and be continuing.

(ii) The issuance of such Additional Bonds shall have been duly authorized pursuant to the Redevelopment Law and all applicable laws, and the issuance of such Additional Bonds shall have been provided for by a Supplemental Indenture.

(iii) The Tax Revenues received by the Redevelopment Agency in the then current Fiscal Year or in the immediately preceding Fiscal Year shall be in an amount equal to at least 125% of Maximum Annual Debt Service on all Outstanding Bonds after the issuance of such Additional Bonds and any unsubordinated loans, advances, indebtedness or other obligations payable from Tax Revenues pursuant to the Redevelopment Law. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Conditions for the Issuance of Additional Bonds."

Amendment of the Indenture

The Agency and the Trustee have agreed upon certain amendments to the Indenture which would permit the Agency (rather than the Trustee) to hold the Special Fund, described herein and would permit a revision to the definition of "Reserve Account Requirement." The amendments would take effect when no Series 1997 Bonds remain Outstanding. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Amendments to Indenture." By acceptance of and payment for the Series 2005 Bonds, the purchasers are deemed to have consented to such amendments.

FINANCIAL GUARANTY INSURANCE

The following information has been furnished by Ambac Assurance Corporation (the "Bond Insurer") for use in this Official Statement. See APPENDIX G—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" for a specimen of the financial guaranty insurance policy issued by the Bond Insurer. No representation is made by the Redevelopment Agency or the Underwriter as to the accuracy, completeness or adequacy of such information or as to the absence or material adverse changes in the condition of the Bond Insurer subsequent to the date of this Official Statement.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Series 2005 Bonds effective as of the date of issuance of the Series 2005 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2005 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent/Bond Registrar. The insurance will extend for the term of the Series 2005 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2005 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2005 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2005 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the

principal of the Series 2005 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2005 Bonds which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

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

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

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2005 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2005 Bond and will be fully subrogated to the surrendering Holder's rights to payment.

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

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,585,000,000 (unaudited) and statutory capital of approximately \$5,251,000,000 (unaudited) as of March 31, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a Series 2005 Bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such Series 2005 Bonds and that insurance proceeds representing maturing interest

paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Series 2005 Bonds.

Ambac Assurance makes no representation regarding the Series 2005 Bonds or the advisability of investing in the Series 2005 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

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

Incorporation of Certain Documents by Reference

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005; and
6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005.

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

THE REDEVELOPMENT AGENCY

Members, Authority and Personnel

The Redevelopment Agency of the City of Folsom (the "Redevelopment Agency") was activated on June 6, 1983 pursuant to Ordinance No. 493 by action of the Folsom City Council pursuant to the Redevelopment Law. Effective as of the same date, the City Council declared itself to be the governing board of the Redevelopment Agency.

The members of the Redevelopment Agency Board include the Mayor, as Chairperson of the Redevelopment Agency Board; the remaining members of the City Council serve as members on the Redevelopment Agency Board; the City Manager, as Executive Director of the Redevelopment Agency; the Finance Director as Finance Officer, the City Clerk as Secretary of the Redevelopment Agency; and the City Attorney as General Counsel to the Redevelopment Agency. The Redevelopment Agency Board is comprised of five members who serve staggered four-year terms. The current members of the Redevelopment Agency Board and the expiration of their terms are set forth below:

<u>Name</u>	<u>Expiration Date of Term (December)</u>
Stephen E. Miklos, Chairperson	2006
Andy Morin, Member	2006
Kerri Howell, Member	2006
Eric King, Member	2008
Jeff Starsky, Member	2008

Technical and other staff services of the Redevelopment Agency are provided by City staff under a Cooperation Agreement between the Redevelopment Agency and the City entered into as of August 1, 1983. Such support includes, but is not limited to, project management, real estate acquisition and disposition, relocation, engineering and planning, legal, financing and fiscal services.

Powers

All powers of the Redevelopment Agency are vested in its five members. The Redevelopment Agency exercises all the governmental functions as authorized under the Redevelopment Law and has among other powers the authority to acquire, administer, develop, lease or sell property, including the right of eminent domain over commercial property, and the right to issue bonds and expend the proceeds thereof. The Redevelopment Agency can clear buildings and other improvements and can develop as a building site any real property owned or acquired and in connection with such development, cause street, highways, and sidewalks to be constructed or reconstructed and public utilities to be installed.

The Redevelopment Agency may, out of funds available for such purposes, pay for all or part of the value of land and the cost of building facilities, structures or other improvements to be publicly owned and operated to the extent that such improvements are of benefit to the Project Area and no other reasonable means of financing are available. The Redevelopment Agency must sell or lease remaining property within the Project Area for redevelopment by others in strict conformity with the Redevelopment Plan and may specify a period within which such redevelopment must begin or be completed.

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

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

In accordance with these criteria the Redevelopment Agency has adopted the Plan which authorizes the use of the redevelopment process and procedures.

Redevelopment Agency Finances

The Redevelopment Agency's audited financial statements for the Fiscal Year ending June 30, 2004 is included in APPENDIX B.

THE CENTRAL FOLSOM REDEVELOPMENT PROJECT AREA

General

The Project Area is composed of approximately 1,050 acres generally bounded on the northwest by the American River; on the northeast by the Folsom State Prison grounds and a number of newer residential neighborhoods lying east of Dean Way and Montrose Drive, and north of Duchow Way; on the southeast by several large undeveloped parcels lying between East Bidwell Street and Folsom Boulevard; and on the west by Folsom Boulevard and Lake Natoma. A map of the Project Area is set forth on page 18.

The Redevelopment Plan for the Project Area was adopted by the City Council on November 29, 1983, and amended on December 13, 1994 and on April 8, 2003. The plan duration is until November 29, 2023 and the deadline for debt repayment is November 29, 2033. The tax increment limit for the plan is \$350,000,000 and the plan limits the amount of indebtedness to be repaid from tax increments which can be outstanding at any date to \$120,000,000.

Present conditions in the project area include some nonconforming uses, parcels that are underdeveloped and some structures that are dilapidated and deteriorated. In addition, this area contains inadequate street improvements that lead to poor traffic circulation. The area is comprised of a mix of residential and commercial uses and some vacant buildings.

The redevelopment of the Project Area is centered around the elimination of blight through the reconstruction or construction of needed public improvements. Public improvements have been made to the pedestrian and parking areas in the form of pavement, lights and trees. Private investment in the downtown area has resulted in the construction and renovation of office and commercial retail buildings.

The Project Area can be divided into four subareas, each having a distinct character and pattern of development. The following is a description of these subareas.

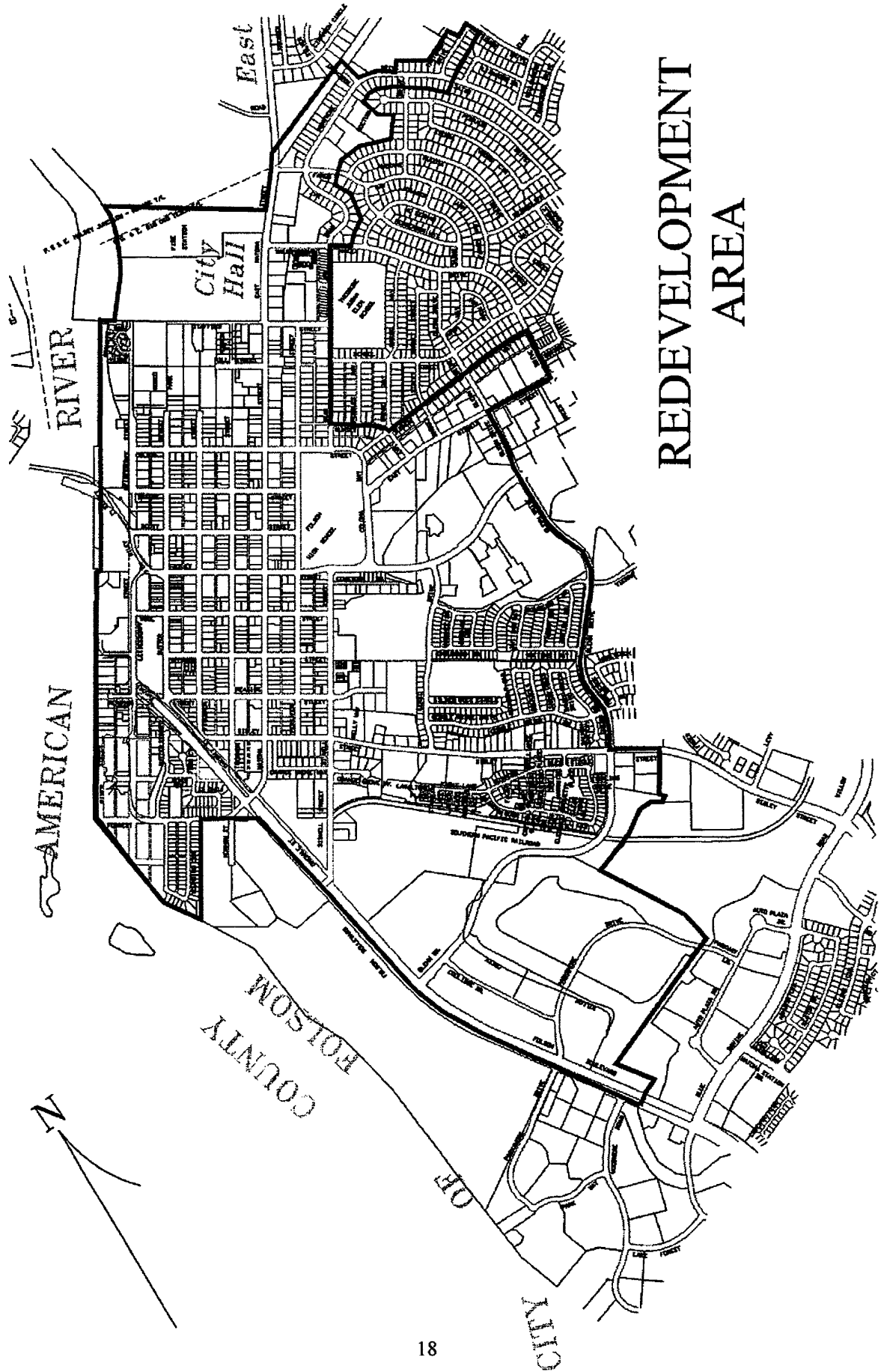
Historic District. The historic district contains the original Sutter Street commercial core surveyed in 1854, and extends from Folsom Boulevard to a point about 200 feet north of Scott Street. The 19th century commercial structures in this area are primarily occupied by tourist-oriented establishments, such as antique, general merchandise, novelty and handicraft shops, and restaurants. Other commercial uses in this subarea consist of service and professional offices, neighborhood commercial establishments, and service stations. Off-street parking associated with the commercial district is available in both private and public lots along Leidesdorff and Sutter Streets, some of which are paved. Other historic uses include an old Pacific Gas & Electric Company Power House (adjacent to the riverfront). Residential uses include small to medium-sized, one-hundred year-old, single family homes, and small apartment complexes.

Central Business District. The central business district includes all the frontage parcels along the south side of East Bidwell Street (between Sutter Middle School (Folsom High School) and Glenn Drive), and the four blocks bounded on the north by Duchow Way, on the east by Wales Drive, on the south by East Bidwell Street, and on the west by Coloma Way. The frontage lots along both sides of East Bidwell Street constitute Folsom's principal community shopping and local service district, and include the Folsom Lake, Folsom Faire, Bank Club, and Rumsey Way Shopping Centers. In addition to food and general merchandise, commercial uses in this subarea include a bowling center, several banks, auto supply, hardware, building supply, and fast food outlets, and miscellaneous offices. Lots along the south side of Duchow Way are developed with a mix of single- and multi-family uses.

Silverbrook Area. This area was once dominated by the presence of several million cubic yards of tailing materials (cobble and gravel), deposited as a byproduct of dredging operations associated with gold extraction in the Folsom area from 1912 until 1962. Tailings once covered approximately 250 acres of land in the southern portion of this area, but most of this area has been recently developed with single family residences and commercial/office developments. Approximately 40 acres remain undeveloped.

North Area. This subarea includes the remainder of the Project Area lying northeast of Stafford Street and includes the Folsom Civic Center and City Park/Rodeo Grounds, a mixture of medical and professional offices, neighborhood commercial uses and a convalescent hospital complex. Residential uses include two apartment/condominium complexes and a number of duplexes.

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REDEVELOPMENT AREA

Controls, Land Use and Building Restrictions

The Redevelopment Plan for the Central Folsom Redevelopment Project (the “Plan”) designates five major uses that cover the entire Project Area: residential, commercial, industrial, public rights of way, and other public, semi-public, institutional and nonprofit uses. “Public uses” principally consist of street and other public facilities such as parking, public buildings and open space. The Plan outlines general controls and limitations for uses in each area. The Plan is intended to provide the framework for the Redevelopment Agency’s planning and execution of renewal activities. The Redevelopment Agency’s formal land use control powers are limited, however, to approved rehabilitation, activity, and acquisition areas within the Project Area, as described below. City codes, including the general plan and zoning regulations of the City of Folsom and other Folsom municipal codes and ordinances, apply throughout the Project Area.

The major goals of the plan are as follows:

- The elimination of environmental deficiencies in the Project Area including, but not limited to, substandard buildings and those that conflict with uses in the General Plan and the specific plans developed for the subareas within the Project Area and among deteriorated and inadequate public improvements;
- The improvement of pedestrian and vehicular circulation in the Project Area;
- The creation of sites of adequate shape and size for commercial redevelopment by “packaging” smaller parcels of inadequate size and shape to create more useful parcels;
- The creation or improvement of residential opportunities for all segments of the community, including the provision of housing affordable to low and moderate income households;
- The creation of commercial and residential rehabilitation programs that encourage the upgrading of existing residential and commercial buildings to stimulate historic preservation and combat deferred maintenance;
- The strengthening of retail and other commercial functions in the Project Area;
- The strengthening of the economic base of the Project Area and the community by installing needed improvements to stimulate new private investment, employment, and economic growth; and
- The provision of adequate land for parking and open spaces.

No building, sign, or structure may be constructed and no existing improvement be rehabilitated within established rehabilitation, acquisition, or activity areas except in accordance with architectural, landscape, and site plans submitted to and approved by the Historic District Commission (the “Commission”).

Under certain circumstances, the Commission is authorized to permit a variation from the limits, restrictions and controls established by the Folsom Municipal Code (the “Municipal Code”). However, no variation shall be granted which changes a basic land use or which permits other than a minor departure from the Municipal Code provisions. In permitting a variation, the Commission is required to impose such conditions as are necessary to protect the public health, safety or welfare, and to assure compliance with the purposes of the Municipal Code. Any variation permitted by the Commission is not to supersede any other approval required under City codes and ordinances.

The following table sets forth the number of residential and non-residential parcels in the Project Area and the Fiscal Year 2004-05 assessed values for such parcels.

	<u>No. of Parcels</u>	<u>2004-05 Assessed Valuation⁽¹⁾</u>	<u>% of Total</u>
Non-Residential:			
Commercial	105	\$97,490,864	17.43%
Vacant Commercial	15	5,443,590	0.97
Office and Professional Buildings	51	67,501,623	12.07
Industrial	18	76,772,513	13.72
Vacant Industrial	7	4,560,608	0.82
Recreational	6	1,109,253	0.20
Religious and Social	26	1,596,510	0.29
Government	106	0	0.00
Miscellaneous	<u>35</u>	<u>8,988</u>	<u>0.00</u>
Subtotal Non-Residential	369	\$254,483,949	45.49%
Residential:			
Single Family Residence	1,324	\$247,046,949	44.16%
Mobile Home	20	170,200	0.03
Mobile Home Park	2	2,183,410	0.39
2-4 Residential Units	183	31,470,788	5.63
5+ Residential Units/Apartments	21	7,895,568	1.41
Hotel/Motel	4	9,175,262	1.64
Vacant Residential	<u>91</u>	<u>7,003,664</u>	<u>1.25</u>
Subtotal Residential	1,645	\$304,945,841	54.51%
Total	2,014	\$559,429,790	100.00%

⁽¹⁾ Local Secured Assessed Valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Development within the Project Area

The Redevelopment Agency has entered into agreements (each an “Owner Participation Agreement”) with property owners within the Project Area which describe, in relevant part: (i) the project to be developed; (ii) the public improvements to be installed by the property owner in connection with the redevelopment project; (iii) the maximum amount the Redevelopment Agency will reimburse each owner for such public improvements or make other payments and the terms and conditions for such reimbursement or payments; (iv) the completion date for the project. Each Owner Participation Agreement also provides that the development of the property is subject to the provisions of the Plan, as it may be subsequently amended.

The following is a description of the owners and, the projects subject to an Owner Participation Agreement in the Project Area and the applicable annual payment.

<u>Owner</u>	<u>Date</u>	<u>Description of Project</u>
Kikkoman Foods Inc.	10/22/1996	Food Manufacturing Family
Spieker Properties, L.P.	8/25/1998	Office Building and Retail
J. Lanza and R. Miller (Gaslight Project)	8/24/1995	Retail and Restaurant

The Agency's annual aggregate payment requirements under the Owner Participation Agreements as of June 30, 2004 are \$389,470 through the 2008-09 fiscal year and \$1,109,880 from fiscal years 2009-10 through 2013-14. The Agency's payment obligations are not secured by a pledge of Tax Revenues.

Recently Approved Projects

Set forth below is a description of recently approved developments within the Project Area.

905-915 Sutter Street. Jerry Bernau received approval from the Historic District Commission for the construction of a two-story, 12,000-square-foot, mixed-use building (office/retail), and a two and one-half story, 14,600-square-foot, mixed-use building (residential/retail) on a 21,280-square-foot site located at the southwest corner of Sutter Street and Decatur Street (905/915 Sutter Street). The 12,000-square-foot building (905 Sutter Street) includes 6,000 square feet of retail space (potential restaurant space) on the ground floor and 6,000 square feet of office space (R.E.Y. Engineers Inc.) on the second floor. The 14,600-square-foot building (915 Sutter Street) includes 6,000 square feet of retail space on the ground floor and 8,600 square feet of residential space on the second and mezzanine levels. The residential portion of the building includes eight residential loft units ranging from 800 to 1,350 square feet in size. This project is under review by the City Building Division.

201-205 Natoma Street. The Historic District Commission recently approved an application to demolish three of the four existing buildings located at 201-205 Natoma Street and to construct a new single-story 5,065-square-foot office building. This project eliminated out of date smaller structures, creating an opportunity to locate a larger office building on the site. This project is currently under construction.

312 Natoma Street. The Historic District Commission recently approved an application to demolish the existing building located at 312 Natoma Street to development (3) 2-story, mixed-use buildings. The first floor of each building is office space while the second floor of each building is for residential use. This project is currently under construction.

Silverbrook Light Rail Station. As part of Regional Transit's development of the light rail line to Folsom, a light rail station is currently being built at the southwest corner of Folsom Boulevard and Glenn Drive. This is a publicly-owned facility, which will not be taxable.

Downtown Light Rail Station. As part of Regional Transit's development of the light rail line to Folsom, a light rail station is currently being built at the rail lines terminus at Sutter Street within the Historic District. This is a publicly-owned facility, which will not be taxable.

Emma's. The City Council approved a proposal to rehabilitate a building currently at 101 Reading Street and move the structure off of the future park and ride lot. The proposed owner, Robin Saia, proposes to relocate the building to 216 Natoma Street to be used in conjunction with an existing Montessori School. This project is under review by the City.

Rail Road Block. The City is in the process of working with a developer to develop up to 120,000 square feet of commercial/office and residential development on property known as the Rail Road Block. The project could include up to 60 residential units. In addition, parking, landscaping and large public plazas will be included in the project. This project is in the design phase.

Sutter Street Parking Structure. The City will be constructing up to 325 parking spaces within parking structure on Sutter Street. This project is in the design phase. This is a publicly-owned facility, which will not be taxable.

RT Park and Ride Lot. Regional Transit is currently constructing a 75 space park and ride lot to be used by future commuters of light rail. This is a publicly-owned facility, which will not be taxable.

921-923 Sutter Street. A request to renovate the existing storefront of an old dilapidated grocery store was approved. This project has been completed.

Historical and Current Tax Revenues

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

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

It should be understood that this procedure does not involve the levy of any additional taxes, but provides that revenues produced by the tax rates in effect from year to year shall be apportioned to the taxing agencies levying the taxes and to the Redevelopment Agency on the basis described above. After all loans, advances and other indebtedness, including interest, incurred by the Redevelopment Agency in connection with the Project Area have been paid, the tax revenues will be paid to and retained by the respective taxing agencies in the normal manner. See also "SPECIAL RISK FACTORS—Reduction in Tax Base" and "—Levy and Collection of Taxes" and "LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS."

The table below presents the taxable value of all property within the Project Area for Fiscal Years ended June 30, 2001 through June 30, 2004 and the estimated value for Fiscal Year 2004-05

**REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
CENTRAL FOLSOM REDEVELOPMENT PROJECT AREA
TAXABLE VALUES**

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05[†]</u>
<u>Gross Assessed Values</u>					
County Secured Roll	\$431,553,111	\$425,841,263	\$489,335,270	\$528,593,899	\$559,429,790
County Unsecured Roll	<u>21,432,866</u>	<u>18,632,056</u>	<u>22,382,855</u>	<u>42,817,971</u>	<u>28,100,777</u>
Total Gross Assessed Values	\$452,985,977	\$444,473,319	\$511,718,125	\$571,411,870	\$587,530,567
<u>Base Year Assessed Values</u>					
Secured	\$61,535,671	\$61,535,671	\$61,535,671	\$61,535,671	\$61,535,671
Unsecured	<u>3,686,615</u>	<u>3,686,615</u>	<u>3,686,615</u>	<u>3,686,615</u>	<u>3,686,615</u>
Total Base Year Values	\$65,222,286	\$65,222,286	\$65,222,286	\$65,222,286	\$65,222,286
<u>Increase Over Base-Year Assessed Values</u>					
Secured	\$370,017,440	\$364,305,592	\$427,799,599	\$467,058,228	\$497,894,119
Unsecured	<u>17,746,251</u>	<u>14,945,441</u>	<u>18,696,240</u>	<u>39,131,356</u>	<u>24,414,162</u>
Total Increase in Assessed Values	\$387,763,691	\$379,251,033	\$446,495,839	\$506,189,584	\$522,308,281

[†] Estimated.

Source: *Redevelopment Agency of the City of Folsom.*

The table below reflects historical Tax Revenues received by the Project Area based on Fiscal Years ending June 30, 2001 through June 30, 2005. To date, the County has paid to the Redevelopment Agency the full amount of Tax Revenues requested by the Redevelopment Agency, without regard to delinquencies in tax collection, however, the Redevelopment Agency can make no guaranties that such arrangement will continue in the future.

**REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
CENTRAL FOLSOM REDEVELOPMENT PROJECT AREA TAX REVENUES
Tax Revenues Received
(000's omitted)**

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Revenues	\$4,472	\$4,295	\$4,999	\$5,434	\$5,437
Less County Tax Administration Fees ⁽¹⁾	(92)	(72)	(93)	(87)	(80)
Less 20% Housing Set-Aside ⁽²⁾	<u>(877)</u>	<u>(947)</u>	<u>(1,226)</u>	<u>(1,337)</u>	<u>(1,339)</u>
Aggregate Tax Revenues Receipts	\$3,503	\$3,276	\$3,680	\$4,010	\$4,018

(1) The Redevelopment Agency entered into an agreement with the County for the administration of taxes commencing with the 1993-94 Fiscal Year.

(2) Pursuant to a settlement agreement relating to the City's compliance with State of California affordable housing requirements, the Redevelopment Agency has agreed to apply 25% of annual Tax Revenues to affordable housing commencing April, 2002 and expiring December, 2007.

Source: *Redevelopment Agency of the City of Folsom.*

Principal Taxpayers

General. The table below presents a summary of the ten principal taxpayers by assessed valuation in the Project Area, and the percentage of each to the total assessed valuation of the Project Area. The total Fiscal Year 2004-05 assessed valuation of the property within the Project Area is \$587,530,567.

**REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
CENTRAL FOLSOM REDEVELOPMENT PROJECT AREA
TEN LARGEST TAX PAYERS
2004-05 FISCAL YEAR**

<u>Taxpayer</u>	<u>Description of Taxpayer</u>	<u>Total Assessed Value[†]</u>	<u>Percent of Redevelopment Project Area</u>
Kikkoman Foods Inc.	Food Manufacturer	\$63,766,999	11.40%
SPK Parkshore Plaza LLC	Office and Retail	44,621,156	7.98
Folsom Shopping Center 03 LLC	Retail	25,600,000	4.58
Retail IV/Wal Mart Real Estate Trust	Retail	12,196,897	2.18
BLE Coolidge LLC/ Brienzo Family Trust	Light Industrial	10,242,598	1.83
Lake Natoma Lodging Limited Partnership	Hotel	7,459,512	1.33
Hal R. & Karen A. Shores LLC	Office	7,418,769	1.33
Chemical Trust Company/Kmart Corp.	Bank and Retail	7,373,485	1.32
Namo Company LLC	Office	4,838,682	0.86
CA Parkshore Plaza III LP	Vacant Land	<u>4,216,438</u>	<u>0.75</u>
Top Ten Totals		\$187,734,536	33.56%
Project Area Total ⁽²⁾		\$559,429,790	

[†] Secured Roll.

Source: *Redevelopment Agency of the City of Folsom.*

Kikkoman Foods. The largest taxpayer in the Project Area is Kikkoman Foods Inc., an international manufacturer of soy sauce and other Japanese food products. The Kikkoman facility comprises 95,000 square feet and is located near the Old Folsom area of the City. The facility, which employs approximately 25 people, produces an estimated 2.6 million gallons of soy sauce annually. The facility opened in 1998.

Verizon Wireless. Verizon Wireless, one of the largest cellular telephone network operators in the nation, owns \$4,989,101 of property on the unsecured tax roll in the Project Area, making it one of the ten largest taxpayers in the Project Area. However, the table of ten largest taxpayers set forth above is calculated solely upon property on the secured roll.

Outstanding Appeals for Reduction of Assessed Valuation

A total of 12 assessment appeals in the Project Area are currently pending. In aggregate, the pending appeals seek a reduction in assessed value \$20 million. Over the past few years a number of appeals have been filed but have resulted in a total reduction of only \$933,337 in assessed value. See "SPECIAL RISK FACTORS—Assessment Appeals."

Debt Service Coverage Ratios

The following table projects the estimated annual debt service coverage ratios based on the Redevelopment Agency's Tax Revenues from the Project Area to pay the debt service on the Bonds, including the Series 2005 Bonds. These coverage ratios for each year are based upon tax increment amounts received for the Fiscal Year ending June 30, 2005.

Bond Year Ending (August 1)	Gross Tax Revenues ⁽¹⁾	20% Housing Set-Aside Requirements ⁽²⁾	County Administration Fee ⁽³⁾	Tax Revenues	Series 1997 Bonds Debt Service	Series 2005 Bonds Debt Service ⁽⁴⁾	Total Debt Service	Debt Service Coverage
2006	\$5,340,589	\$1,335,147	\$81,800	\$3,923,642	\$673,699		\$673,699	582%
2007	5,460,445	1,365,111	83,636	4,011,698	687,541		687,541	583
2008	5,582,699	1,116,540	85,508	4,380,651	699,511	\$442,913	1,142,424	383
2009	5,707,397	1,141,479	87,418	4,478,499	729,311	442,913	1,172,224	382
2010	5,834,589	1,166,918	89,366	4,578,305	740,891	442,913	1,183,804	387
2011	5,964,326	1,192,865	91,353	4,680,107	754,891	442,913	1,197,804	391
2012	6,096,657	1,219,331	93,380	4,783,945	785,810	442,913	1,228,723	389
2013	6,231,634	1,246,327	95,448	4,889,860	357,850	442,913	800,763	611
2014	6,369,311	1,273,862	97,556	4,997,893	-	777,913	777,913	642
2015	6,509,742	1,301,948	99,707	5,108,086	-	779,513	779,513	655
2016	6,652,981	1,330,596	101,901	5,220,484	-	780,513	780,513	669
2017	6,799,085	1,359,817	104,139	5,335,129	-	775,913	775,913	688
2018	6,948,112	1,389,622	106,422	5,452,068	-	775,913	775,913	703
2019	7,100,118	1,420,024	108,750	5,571,345	-	780,313	780,313	714
2020	7,255,165	1,451,033	111,125	5,693,007	-	778,913	778,913	731
2021	7,413,313	1,482,663	113,547	5,817,103	-	775,850	775,850	750
2022	7,574,623	1,514,925	116,018	5,943,681	-	777,150	777,150	765
2023	7,739,160	1,547,832	118,538	6,072,791	-	777,600	777,600	781
2024	7,906,988	1,581,398	121,108	6,204,482	-	777,200	777,200	798
2025	8,078,172	1,615,634	123,730	6,338,808	-	779,700	779,700	813
2026	8,252,780	1,650,556	126,405	6,475,819	-	776,075	776,075	834
2027	8,430,880	1,686,176	129,133	6,615,572	-	776,550	776,550	852
2028	8,612,542	1,722,508	131,915	6,758,119	-	780,900	780,900	865
2029	8,797,838	1,759,568	134,753	6,903,517	-	778,900	778,900	886
2030	8,986,839	1,797,368	137,648	7,051,823	-	780,775	780,775	903
2031	9,179,620	1,835,924	140,601	7,203,095	-	776,300	776,300	928
2032	9,376,257	1,875,251	143,613	7,357,393	-	780,700	780,700	942
2033	<u>9,576,827</u>	<u>1,915,365</u>	<u>146,485</u>	<u>7,514,976</u>	-	<u>778,525</u>	<u>778,525</u>	965
TOTAL	\$203,778,690	\$41,295,790	\$3,121,002	\$159,361,898	\$5,429,505	\$18,222,688	\$23,652,193	

Column totals may not add due to independent rounding.

- (1) Gross Tax Revenues assumes 2% growth in assessed values from 2004-05 values and assumes tax rate of 1% on incremental value.
- (2) Pursuant to a settlement agreement relating to the City's compliance with State of California affordable housing requirements, the Redevelopment Agency has agreed to apply 25% of annual Tax Revenues to affordable housing commencing April, 2002 and expiring December, 2007.
- (3) County Administration fee is an estimate.
- (4) Interest on the Series 2005 Bonds is capitalized through August 1, 2007.

SPECIAL RISK FACTORS

In addition to the information set forth elsewhere in this Official Statement, potential investors should consider the following matters in evaluating an investment in the Bonds. The following does not purport to be an exhaustive listing of risks and other considerations that may be relevant to investing in the Bonds and no assurance can be given that additional risk factors will not become evident at any future time. The order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Concentration of Tax Base

In the Project Area, a major portion of the assessed value is attributable to relatively few assesses. In such an area, the failure or financial difficulty of one or more of such large developments could have a significant detrimental impact on their assessed value and consequently on the amount of Tax Revenues available to repay the Bonds. See “THE CENTRAL FOLSOM REDEVELOPMENT PROJECT AREA—Principal Taxpayers.”

Estimates of Tax Revenues

In estimating that the total Tax Revenues to be received by the Redevelopment Agency will be sufficient to pay debt service on the Bonds, the Redevelopment Agency has relied on actual historical Tax Revenues and made certain assumptions with regard to future assessed valuations in the Project Area, future tax rates and the percentage of taxes collected. The Redevelopment Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and the tax rates are less than expected, the total Tax Revenues available to pay debt service on the Bonds will be reduced. Such reduced Tax Revenues may be insufficient to provide for the payment of debt service on the Bonds.

Reduction in Tax Base

Tax Revenues allocated to the Redevelopment Agency by the State and the City constitute the ultimate source of payment on the Bonds. Such Tax Revenues are determined by the amount of the incremental taxable value of property in the Project Area, the current rate or rates at which property in the Project Area is taxed and the percentage of taxes collected in the Project Area. A reduction of the taxable values of property in the Project Area could occur as a result of numerous factors beyond the Redevelopment Agency’s control, including but not limited to, a general economic downturn, availability and cost of electric power, natural gas and other fuel sources, political and economic obstacles to additional development and redevelopment activities in the Project Area, relocation out of the Project Area by one or more major property owners, or the complete or partial destruction of property caused by, among other calamities, an earthquake, fire, flood or other natural disaster. In addition, taxable values may be reduced pursuant to successful appeals of assessed valuations. Any such reductions in taxable values could cause a reduction in the Tax Revenues securing the Bonds and could have an adverse effect on the Redevelopment Agency’s ability to make timely payments with respect to such Bonds. In the past, real property values and taxable valuations of real property in some parts of California have declined. The Redevelopment Agency does not expect any such reductions to materially affect its ability to pay the Bonds on a timely basis.

Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such adjustments are computed on a calendar year basis. In projecting future Tax Revenues to be received by it to make payments with respect to the Bonds, the

Redevelopment Agency has not assumed 2% inflationary increases. The projected Tax Revenues are based on the latest actual amounts received by the Redevelopment Agency. However, future deflation could cause decreases in property values, a reduction in tax revenues received by the Redevelopment Agency and reduced Tax Revenues.

Assessment Appeals

Pursuant to State law, a property owner may apply for a reduction of the property tax assessment for such owner's property by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county assessment appeals board. An appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant property owner.

A property owner within the County desiring to reduce the assessed value of such owner's property in any one year must submit an application to the Sacramento County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of the application by the County Assessor's Office, the County Assessor may offer to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board for a hearing and decision. The Appeals Board generally is required to determine for the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as "ongoing hardship"), the County Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the current year as well. In a similar manner, the County Assessor may reassert the pre-appeal level of assessed value depending on the County Assessor's determination in current value. To the extent that assessed values are reduced through the assessment appeal process, Tax Revenues pledged for payment of the Bonds will be reduced. See "THE CENTRAL FOLSOM REDEVELOPMENT PROJECT AREA—Outstanding Appeals for Reduction of Assessed Valuation."

State Budgets

In connection with its approval of the budget for the 1992-93, 1993-94 and 1994-95, 2002-03, 2003-04, 2004-05 and 2005-06 fiscal years, the State Legislature enacted legislation which, among other things, reallocated funds from redevelopment agencies to school districts by shifting a portion of each agency's tax increment, net of amounts due to other taxing agencies, to school districts for such fiscal years for deposit in the Education Revenue Augmentation Fund ("ERAF"). The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment project areas on a collective basis, and was not allocated separately to individual project areas. The State Legislature adopted and the Governor of the State signed legislation, SB 1045 requiring redevelopment agencies to pay into ERAF in Fiscal Year 2003-04 an aggregate amount of \$135 million. SB 1045, signed by the Governor in September, 2003 required the payment into ERAF in Fiscal Year 2003-04 only. SB 1045 provides that one-half of the ERAF obligation of the Redevelopment Agency is calculated based on the gross tax increment received by the Redevelopment Agency and the other one-half of the ERAF obligation of the Redevelopment Agency is calculated based on net tax increment revenues (after any pass-through payments to other taxing entities), as such tax increment revenues are shown in Table 1 of the Fiscal Year 2001-02 Annual Report of the California State Controller. Based on the tax increment revenues shown in the State Controller's Annual Report as being retained by the Redevelopment Agency, the Redevelopment Agency has paid \$501,089 into ERAF by May 10, 2005. The Redevelopment Agency must make a similar payment by May 10, 2006; no other payments beyond 2006 are currently

mandated. In the opinion of the Redevelopment Agency, the required ERAF payments have not and will not impair its ability to pay debt service on its outstanding indebtedness.

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.

Reductions in Unitary Values

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

Hazardous Substances

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

Reduction in Inflation Rate

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

Bankruptcy and Foreclosure

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

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

Levy and Collection of Taxes

The Redevelopment Agency has no independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Redevelopment Agency to repay the Bonds. Likewise, delinquencies in the payment of property taxes and the impact of bankruptcy proceedings on the legal ability of taxing agencies to collect property taxes could have an adverse effect on the Redevelopment Agency's ability to make timely payments on the Bonds. The County of Sacramento allocates property taxes to the Redevelopment Agency based on 100% of the tax levy, notwithstanding any delinquencies. However, the County may discontinue such practice at any time. If there is a decline in the general economy of the project area, the owners of property within such project area may be less able or less willing to make timely payments of property taxes, causing a delay or stoppage of Tax Revenues received by the Redevelopment Agency from such project area.

Changes in the Law

In addition to the other limitations on tax revenues described herein under "LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS" the California electorate or Legislature could adopt a constitutional or legislative change that decreases property taxes or the amount thereof allocable to the Redevelopment Agency with the effect of reducing Tax Revenues payable to the Redevelopment Agency. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce such Tax Revenues and adversely affect the security for the Bonds.

LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS

Property Tax Limitations: Article XIII A

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest or redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, and (ii) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition.

Section 2 of Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 Fiscal Year tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event

of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as previously described. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A which is \$1.00 per \$100 of assessed market value.

Section 51 of the California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Article XIII A and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. In March 2004, the Court of Appeal held that the trial court erred in ruling that assessed value determinations are always limited to no more than 2% of the previous year’s assessed value and reversed the judgment of the trial court. The ruling of the Court of Appeal was appealed to the State Supreme Court which denied the appeal for review in August 2004.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property.

Property Tax Collection Procedures

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

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 personal property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of a personal property, improvements or possessory interests belonging or assessed to the assessee.

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

Except for property assessed by the State, the valuation of property is determined as of December 1 each year and equal installments of taxes levied upon secured property become delinquent after the following December 10 and April 10. Taxes on unsecured property are due December 1 and become delinquent August 31, and such taxes are levied at the prior year's secured tax rate.

Penalty. A 10% penalty is added to delinquent taxes that have been levied in respect of property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector. A 10% penalty also attached to delinquent taxes in respect of property on the unsecured roll and an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

Assembly Bill ("AB") 2372 (Chapter 1230, Statutes of 1989) provides that each county is to distribute property tax revenues to local agencies (such as the Redevelopment Agency) in accordance with certain provisions of the California Revenue and Taxation Code, but that penalties and interest on property tax delinquencies are to be deposited in the county's general fund.

Delinquencies. The valuation of property and corresponding tax lien are 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. As described above under "Collections," it is the practice of the County of Sacramento (the "County") to retain all such penalties and interest. The County currently allocates property taxes to the Redevelopment Agency based on 100% of the tax levy, notwithstanding any delinquencies. However, the County may discontinue such practice at any time. Taxes on unsecured property are due July 1 and become delinquent August 31.

Supplemental Assessments. A bill enacted in 1983, SB 813 (Chapter 498, Statutes of 1983) provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Collection of taxes based on supplemental assessments will occur throughout the year. Previously, statutes enabled the assessment of such changes only as of the next annual tax lien date following the change and thus delayed the realization of increased property taxes from the new assessments. 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 January 1 lien date. To the extent such supplemental assessments occur within the Project Area, Tax Revenues may increase.

Filing of Statement of Indebtedness. Section 33675 of the Redevelopment Law provides for the filing not later than the first day of October of each year with the County of a statement of indebtedness certified by the chief fiscal officer of the Redevelopment Agency for each redevelopment plan which provides for the allocation of taxes. The statement of indebtedness is required to contain the date on which any bonds were delivered, the principal amount, term, purpose and interest rate of such bonds and the outstanding balance and amount due on such bonds. Similar information must be given for each loan, advance or indebtedness that the redevelopment agency has incurred or entered into to be payable from tax revenues.

Section 33675 also provides that the payments of the tax revenues from the County may not exceed the amounts shown on the Redevelopment Agency's statement of indebtedness. The Section further provides that the statement of indebtedness is prima facie evidence of the indebtedness of the Redevelopment Agency, but that the County may dispute the amount of indebtedness shown on the statement in certain cases and the disputed amount may be withheld from allocation and payment to the

Redevelopment Agency. Provision is made for time limits under which the dispute can be made by the County as well as provisions for determination by the Superior Court in a declaratory relief action of the proper disposition of the matter. The issue in any such action shall involve only the amount of the indebtedness, and not the validity of any contract or debt instrument, or any expenditures pursuant thereto. Payments to a public agency in connection with a bond issue, shall not be disputed in any action under the Section.

Property Tax Administrative Charges. In 1990, the State Legislature enacted SB 2557 (Chapter 466, Statutes of 1990), now codified in Section 97.5 of the California Revenue and Taxation Code, which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions on a prorated basis. Subsequent legislation clarified that the provisions of SB 2557 include redevelopment agencies as a local government agency which must pay such administrative costs. The County has not imposed on the Redevelopment Agency the property tax administrative charges authorized by Section 97.5, although the County could elect to do so in the future.

Limitations on Receipt of Additional Taxing Entity Revenue

Chapter 147, Statutes of 1984, modified Section 33676 of the Redevelopment Law and allows taxing entities to receive additional property taxes in a redevelopment project area above the base year revenue amount. Section 33676 allows an affected taxing entity to elect, by resolution prior to the adoption of a redevelopment plan, to receive property taxes generated from (i) increases in the tax rate levied by the affected entity; and (ii) annual increases in the real property portion of the base year value up to the inflation limit of 2% provided in Article XIII A of the State Constitution.

Section 33676 provides that each school district shall adopt such a resolution and that other taxing entities may do so. Section 33676 is not valid in a project area for any taxing entity which has entered into an agreement to receive payments of tax revenue from a redevelopment agency, as allowed by Section 33401 of the Redevelopment Law to alleviate fiscal detriment resulting from a project area.

Taxation of Unitary Property

AB 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with the fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which cash values will be allocated to each tax rate area on a pro rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property is changed from March 1 to January 1.

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

the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

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

Appropriations Limitations: Article XIII B of the State Constitution

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

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. Proceeds of taxes include, but are not limited to, all tax revenues and the proceeds to an entity of government from (1) regulatory licenses, user charges and user fees (but only to the extent such proceeds exceed the costs of providing the service or regulation) and (2) the investment of tax revenues.

Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. While the tax rate is assumed to decline to 1% of taxable value and remain constant in subsequent years, current law permits taxing entities deriving revenues from the 1% rate to reduce their levies under certain circumstances. It is the apparent intent of the law to insulate the other taxing entities and redevelopment agencies from the effects of such reductions on their property tax revenues.

Effective September 30, 1980, the State 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 the laws of the State, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions: *Brown v. Community Redevelopment Agency of the City of Santa Ana*, 168 Cal. App. 3d 1014 (1985) and *Bell Community Redevelopment Agency v. Woosley*, 169 Cal. App. 3d 24 (1985). The plaintiff in *Brown* petitioned the State Supreme Court for a hearing of this case. The State 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 Redevelopment Agency has not adopted such an appropriations limit.

Low and Moderate Income Housing

Section 33334.6 of the Redevelopment Law requires redevelopment agencies to set aside 20% of all tax revenues derived from redevelopment project areas adopted after January 1, 1977, into a low and moderate income housing fund to be used within the jurisdiction of the redevelopment agency to increase and improve the supply of low and moderate income housing. See “LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS—Low and Moderate Income Housing” herein. Pursuant to a settlement agreement relating to the City’s compliance with State of California affordable housing requirements, the Redevelopment Agency has agreed to apply 25% of annual Tax Revenues to affordable housing commencing April, 2002 and expiring December, 2007.

Assembly Bill 1290

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

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

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

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

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

AB 1290 also established a statutory formula for sharing tax increment for project areas established, or amended in certain respects, on or after January 1, 1994, which applies to tax increment revenues net of the housing set-aside. The first 25% of net tax increment generated by the increase in assessed value after the effective date of the amendment is required to be paid to affected taxing entities. In addition, beginning in the 11th year of collecting tax increment, an additional 21% of the increment generated by increases in assessed value after the tenth year must be so paid. Finally, beginning in the 31st year of collecting tax increment, an additional 14% of the increment generated by increases in assessed value after the 30th year must be so paid. See “LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS—Certain Required Payments of Tax Revenues to Taxing Entities.”

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

Certain Required Payments of Tax Revenues to Taxing Entities

AB 1290. AB 1290 (Chapter 942, Statutes 1993), among other things added Sections 33607.5 and 33607.7 to the Redevelopment Law. Section 33607.5, as subsequently amended, applies to redevelopment project areas that are adopted on or after January 1, 1994, or are amended on or after January 1, 1994 to include new territory. If the statutory payment requirements are triggered by an amendment to include new territory, the payments are required only with respect to the new territory. Commencing with the first fiscal year in which a redevelopment agency receives tax increments from an affected redevelopment project area and continuing through the last fiscal year in which the redevelopment agency receives such tax increments, a redevelopment agency is required to pay to the affected taxing entities, including the community that has adopted the redevelopment project area if the community elects to receive a payment, an amount equal to 25 percent of the tax increments received by the redevelopment agency after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted. Commencing with the 11th fiscal year in which the redevelopment agency receives such tax increments and continuing through the last fiscal year in which the redevelopment agency receives such tax increments, the redevelopment agency is required to pay to the affected taxing entities, other than the community which has adopted the project, in addition to the amounts paid as described in the preceding sentence and after deducting the amount allocated to the Low and Moderate Income Housing Fund, an amount equal to 21 percent of the portion of tax increments received by the redevelopment agency, which is calculated by applying the tax rate against the amount of assessed value by which the then current year assessed value exceeds the first adjusted base year assessed value. The first adjusted base year assessed value is the assessed value of the redevelopment project area in the 10th fiscal year in which the redevelopment agency receives affected tax increment revenues. Finally, commencing with the 31st fiscal year in which the redevelopment agency receives tax increments and continuing through the last fiscal year in which the redevelopment agency receives tax increments, a redevelopment agency shall pay to the affected taxing entities, other than the community which adopted the project, in addition to the amounts paid pursuant to the previously described provisions, and after deducting the amount allocated to the Low and Moderate Income Housing Fund, an amount equal to 14 percent of the portion of tax increments received by the redevelopment agency, which is calculated by applying the tax rate against the amount of assessed value by which the then current year assessed value exceeds the second adjusted base year assessed value. The second adjusted base year assessed value is the assessed value of the project area in the 30th fiscal year in which the redevelopment agency receives affected tax increments. Section 33607.5 does not currently apply to the Project Area.

Section 33607.7 generally makes the requirement of payments by a redevelopment agency of tax increment to affected taxing entities applicable to redevelopment project areas for which the redevelopment plan is amended on or after January 1, 1994, to increase the limitation on the number of dollars to be allocated to the redevelopment agency or the time limit on the establishing of loans, advances, and indebtedness established pursuant to certain provisions of the Redevelopment Law or that lengthens the period during which the redevelopment plan is effective unless the redevelopment agency and the affected taxing entity had prior to January 1, 1994, entered into an agreement requiring payments from the redevelopment agency to the affected taxing entity. The amount to be paid by the redevelopment agency is calculated by the amount of assessed value by which the then current year assessed value exceeds an adjusted base year assessed value. The adjusted base year assessed value is the assessed value of the project area in the year in which the limitation amended would have taken effect without the amendment or, if more than one limitation is amended, the first year in which one or more of the limitation would have taken effect without the amendment. The redevelopment agency is required to commence making payments in the first fiscal year following the fiscal year in which the adjusted base year value is determined. Section 33607.7 applies to the Project Area. The adjusted base year for this purpose is 2003-04.

Sections 33607.5 and 33607.7 permit a redevelopment agency to subordinate the payments required to be paid to an affected taxing entity to loans, bonds, or other indebtedness of the redevelopment agency, except loans or advances from the community which adopted the redevelopment project area, if the redevelopment agency obtains the consent of the affected taxing entity prior to incurring such indebtedness. The Redevelopment Agency's payments under Section 33607.7 have been subordinated to the Redevelopment Agency's obligations under the Bonds.

Proposition 1A. The California Constitution and existing statutes give the State legislature authority over property taxes, sales taxes and the VLF. The State legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State "mandates" a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has "suspended" mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

On November 3, 2004, the voters of the State approved Proposition 1A that amended the California Constitution to reduce significantly the State's authority over major local government revenue sources. Proposition 1A prohibits the State from reducing any local sales tax rate, limiting existing local government authority to levy a sales tax rate or changing the allocation of local sales tax revenues.

Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to a county for any fiscal year under the laws in effect as of November 3, 2004. The measure also specifies that any change in how property tax revenues are shared among local governments within a county must be approved by two-thirds of both houses of the Legislature (instead of by majority vote). Finally, the measure prohibits the State from reducing the property tax revenues provided to a county as replacement for the local sales tax revenues redirected to the State and pledged to pay debt service on State deficit-related bonds approved by voters in March 2004.

If the State reduces the VLF rate below its current level, Proposition 1A requires the State to provide local governments with equal replacement revenues. Proposition 1A provides two significant exceptions to the above restrictions regarding sales and property taxes. First, beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenues if: the Governor proclaims that the shift is needed due to a severe State financial hardship, the legislature approves the shift with a two-thirds vote of both houses and certain other conditions are met. The State must repay local governments for their property tax losses, with interest, within three years. Second, Proposition 1A allows the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A amends the California Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. Specifically, beginning July 1, 2005, the measure requires the State to either fully fund each mandate affecting cities, counties, and special districts or suspend the mandate's requirements for the fiscal year. This provision does not apply to mandates relating to schools or community colleges, or to those mandates relating to employee rights.

Proposition 1A also appears to expand the circumstances under which the State would be responsible for reimbursing cities, counties, and special districts for carrying out new State requirements. Specifically, Proposition 1A defines as a mandate State actions that transfer to local governments financial responsibility for a required program for which the State previously had complete or partial financial responsibility.

Proposition 1A restricts the State's authority to reallocate local tax revenues to address concerns regarding funding for specific local governments or to restructure local government finance. For example, the State could not enact measures that changed how local sales tax revenues are allocated to cities and counties. In addition, measures that reallocated property taxes among local governments in a county would require approval by two-thirds of the members of each house of the legislature (rather than a majority vote). As a result, Proposition 1A could result in fewer changes to local government revenues than otherwise would have been the case.

LITIGATION

There is no litigation now pending or threatened (i) to restrain or enjoin the issuance or sale of the Series 2005 Bonds; or (ii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Series 2005 Bonds.

There is no litigation pending, or to the knowledge of officials of the Redevelopment Agency, threatened against or affecting the Redevelopment Agency, which will materially adversely affect the financial position or results of operations of the Redevelopment Agency.

The City and the Redevelopment Agency are separate legal entities and neither is responsible for the acts or debts of the other.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2005 Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Series 2005 Bonds substantially in the form set forth as APPENDIX F hereto, subject to the matters discussed below.

To the extent the issue price of any maturity of the Series 2005 Bonds is less than the amount to be paid at maturity of such Series 2005 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2005 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2005 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2005 Bonds is the first price at which a substantial amount of such maturity of the Series 2005 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or

organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2005 Bonds accrues daily over the term to maturity of such Series 2005 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2005 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2005 Bonds. Beneficial owners of the Series 2005 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2005 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2005 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2005 Bonds is sold to the public.

Series 2005 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2005 Bonds. The Redevelopment Agency has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2005 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2005 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2005 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2005 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2005 Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Series 2005 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2005 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2005 Bonds may otherwise affect a beneficial owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series 2005 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The

introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series 2005 Bonds. Prospective purchasers of the Series 2005 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2005 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Redevelopment Agency, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Redevelopment Agency has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2005 Bonds ends with the issuance of the Series 2005 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Redevelopment Agency or the beneficial owners regarding the tax-exempt status of the Series 2005 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Redevelopment Agency and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Redevelopment Agency legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2005 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2005 Bonds, and may cause the Redevelopment Agency or the beneficial owners to incur significant expense.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has assigned its rating of "AAA" to the Series 2005 Bonds with the understanding that upon the delivery of the Series 2005 Bonds, a financial guaranty insurance policy insuring the scheduled payment of the principal of and interest on the Series 2005 Bonds when due will be issued by the Bond Insurer. See "FINANCIAL GUARANTY INSURANCE" and APPENDIX G—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY." S&P has also assigned an underlying rating of "A-."

Any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by any such rating agency, if, in their respective judgments, circumstances so warrant. Neither the Redevelopment Agency nor the Underwriter undertake any responsibility either to oppose any such revision or withdrawal. Any downward revision or withdrawal of either such rating could have an adverse effect on the market price of the Series 2005 Bonds.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Series 2005 Bonds and certain other legal matters incident to the issuance of the Series 2005 Bonds will be approved by Orrick, Herrington & Sutcliffe LLP, Bond Counsel with respect to the Series 2005 Bonds. Bond Counsel undertakes no responsibility for the accuracy, fairness or completeness of this Official Statement. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX F. Certain legal matters incident to the issuance of the Series 2005 Bonds will be

passed upon for the Redevelopment Agency by the City Attorney and by Lofton & Jennings, San Francisco, California, Disclosure Counsel.

UNDERWRITING

The Underwriter has agreed to purchase the Series 2005 Bonds at a price of \$9,984,523.65 (which represents the principal amount of the Series 2005 Bonds, less an Underwriter's discount in the amount of \$68,782.50 and less an original issue discount in the amount of \$136,693.85), which is equal to 97.984% of the aggregate principal amount thereof. The bond purchase contract relating to the Series 2005 Bonds provides that the Underwriter will purchase all of the Series 2005 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions contained in said bond purchase contract, the approval of certain legal matters by counsel, and certain other conditions.

The Underwriter may offer and sell the Series 2005 Bonds to certain dealers and others at prices lower than the respective public offering prices stated herein. After the initial public offering, the respective offering prices may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

The Redevelopment Agency has retained Public Financial Management, Inc., San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the preparation of this Official Statement and with respect to the issuance of the Series 2005 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities.

CONTINUING DISCLOSURE

The Redevelopment Agency has covenanted for the benefit of the holders and beneficial owners of the Series 2005 Bonds to provide certain financial information and operating data relating to the Redevelopment Agency by not later than 270 days following the end of the Redevelopment Agency's fiscal year (presently ending June 30) (the "Annual Report"), commencing with the Annual Report for the 2004-05 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Redevelopment Agency with each Nationally Recognized Municipal Securities Information Repository and with the state information repository, if any. The notices of material events will be filed by the Redevelopment Agency with the Municipal Securities Rulemaking Board and with the state information repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5).

MISCELLANEOUS

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

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as a contract with the Owners of the Series 2005 Bonds.

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

REDEVELOPMENT AGENCY OF THE
CITY OF FOLSOM

By: /s/ Navdeep S. Gill
Finance Officer

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF FOLSOM

General

The City of Folsom (the "City") is located approximately 110 miles northeast of San Francisco and 20 miles east of Sacramento in the easterly portion of Sacramento County. The City is located along the eastern end of the Highway 50 corridor. The City is bordered on the north by Folsom Lake, an 18,000 acre, man-made lake created by Folsom Dam and is intersected by Lake Natoma. The City encompasses 24 square miles.

The City, along with a number of other cities east of Sacramento have experienced considerable industrial, residential and commercial growth over the last ten years. During that time the population of the City has nearly double and the City has transformed from a Sacramento suburb to a full-service city in California, offering a wide range of cultural and recreational activities.

The City offers its residents and others recreational activities, including the Folsom Zoo, boating of Folsom Lake, historic "Old Town" and the Folsom City Lions Park, which is the location of the Folsom City Hall, Community Center and Zoo. The City is host to numerous museums and wildlife-oriented facilities. The City is also the home of Folsom State Prison and California State Prison, Sacramento, which together constitute one of the largest prison complexes in the State of California (the "State") prison system.

Government

The City was incorporated in 1946 and chartered in 1990, making is one of only three charter cities in Sacramento County. The City's primary governing body is the City Council, composed of five members who are elected at large and who serve four-year terms. The council members choose a mayor and vice mayor from among their members. The City operates under a Council-Manager form of government. The City Manager, who is appointed by the City Council, administers the daily affairs of the City and carries out City Council policies.

Population

The City's population as of January 1, 2005, was estimated to be 68,033. The City's population includes approximately 6,546 inmates of Folsom State Prison and California State Prison, Sacramento, located in Folsom, both correctional facilities of the State. A comparison of the City's population growth to that of the County of Sacramento (the "County") and the State is shown in Table A-1 below.

**Table A-1
POPULATION**

<u>Year</u>	<u>City of Folsom</u>	<u>County of Sacramento</u>	<u>State of California</u>
1970	5,810	634,373	19,971,022
1980	11,000	777,100	23,510,815
1990	29,700	1,031,500	29,558,000
1997	41,800	1,141,900	32,207,000
1998	43,300	1,157,400	32,657,000
1999	46,450	1,185,100	33,140,000
2000	50,800	1,217,600	33,753,000
2001	56,500	1,247,000	34,367,000
2002	60,700	1,280,900	35,000,000
2003	63,800	1,309,600	35,612,000
2004	66,046	1,346,205	36,271,000
2005	68,033	1,365,855	36,810,000

Source: State Department of Finance, Demographic Research Unit.

General Demographics

The following Table A-2 shows comparative demographic statistics for the City and the County for the last five Fiscal Years.

**Table A-2
CITY OF FOLSOM DEMOGRAPHIC STATISTICS
FISCAL YEARS 2000 - 2004**

<u>Fiscal Year</u>	<u>Per Capita Income⁽¹⁾</u>	<u>School Enrollment⁽²⁾</u>		<u>Unemployment Rate⁽³⁾</u>	
	<u>(Sacramento Metropolitan Area)</u>	<u>Folsom</u>	<u>County</u>	<u>Folsom</u>	<u>County</u>
2000	24,641	15,620	213,713	2.8	4.7
2001	27,485	16,277	222,224	2.8	4.2
2002	30,210	16,987	228,122	3.2	5.3
2003	34,511	17,614	232,612	3.2	5.8
2004	35,082	18,041	235,269	3.5	5.7

Sources:

⁽¹⁾ State Department of Finance.

⁽²⁾ State Department of Education.

⁽³⁾ State Employment Development Department.

Services and Facilities

The City provides a number of municipal services, including finance, administration, police, fire, recreation, parks and public works such as water production and distribution, refuse collection, storm drainage and maintenance. A total of approximately 400 permanent employees assist in providing services. The City also has its own Transit system, Folsom Stage Line, providing local fixed routes, downtown and light rail commuter service, and a Dial-a-Ride program catered to the seniors and disabled citizens for the community.

The Folsom-Cordova Unified School District operates schools both in the City and in the Sacramento suburb of Rancho Cordova. In the City, the district has one high school, two middle schools, and nine elementary schools serving over 7,500 students. Four of the schools, Natoma Station, Carl Sundahl, Folsom Hills Elementary, and Folsom Middle School all received the highest rank possible, on the State of California's first Academic Performance Index (API) Report. Additionally, the Folsom Lake College campus is accredited as a branch of the Los Rios Community College District of Sacramento and serves the community of adults achieving higher education.

Labor Relations

Under the terms of the Meyers-Milias-Brown Act (State Government Code Section 3500 *et seq.*), the City is required to meet and confer with its employees on all matters concerning wages, hours and working conditions.

City employees are represented in six bargaining units by six labor organizations. The Operating Engineers, Local 39 is the largest labor organization, representing approximately 52% of all City employees in a variety of classifications. The City has never experienced a work stoppage or slow-down by any employees represented by labor organizations.

The following Table A-3 a list of the bargaining units, recognized employee organizations and the expiration dates of current agreements.

**Table A-3
CITY OF FOLSOM
EMPLOYEE ORGANIZATIONS, BARGAINING UNITS
AND CONTRACT EXPIRATION DATES**

<u>Employee Organization</u>	<u>Bargaining Unit</u>	<u>Expiration Date</u>
Operating Engineers Local 39	Miscellaneous Workers	12/31/06
Folsom Police Officers Association	Police Workers	12/31/08
Folsom Fire Fighters Association	Fire Fighters	12/31/05
Mid-Management Miscellaneous Workers	Miscellaneous Workers	12/31/06
City of Folsom Fire Department Middle Management Employees	Fire	12/31/05

Source: City of Folsom.

Recreation

Folsom Lake State Recreation Area is one of the most popular multi-use, year-round recreational areas in the California State Park System. Each year visitors come to the 18,000-acre park to fish, hike, camp, picnic, ride horseback, water-ski, boat, swim and study nature. Two-thirds of the park's surface area is water. Folsom Lake, the larger of the area's two lakes (the other being Lake Natoma), is formed behind Folsom Dam and has 120 miles of shoreline.

The City's historical district and Old Town with landmarks of the City are located just above the shores of Lake Natoma on the American River. Visitors and residents can shop and dine on Sutter Street, Folsom's original downtown. The historical district is home to numerous antique dealers, and makes the City one of the oldest and largest centers of the antique trade in the West. Nearby is the Folsom Powerhouse, a national historical monument that provided the first long-distance transmission of electricity in 1895.

Other amenities include the Folsom Aquatic Center, the Cummings Family Skate and Bike Park, and the Folsom Zoo Sanctuary. The City is home to over 40 parks, and has over 22 miles of bike and walking trails.

Industry and Employment

The City traditionally had an economy based largely on the state prison "industry." The economic/employment trends have shifted, however, with the City's efforts to plan for commercial and industrial parks. A number of large, national corporations involved in the research, development, and manufacturing of electronic components, including Intel, have located regional offices and manufacturing facilities in Folsom. In addition, several large retail/commercial centers have been completed or are under construction.

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Set forth in Table A-4 below is employment and unemployment average annual statistics for calendar years 2000 through 2004.

**Table A-4
CITY OF FOLSOM
EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGE STATISTICS, 2000-2004**

<u>Year</u>	<u>Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate(%)</u>
2000	City of Folsom	14,370	13,970	400	2.80
	State of California	16,884,200	16,048,900	835,300	5.40
	United States	142,583,000	136,891,000	5,692,000	4.73
2001	City of Folsom	14,760	14,350	410	2.80
	State of California	17,182,900	16,260,100	922,800	5.40
	United States	143,734,000	136,933,000	6,801,000	4.73
2002	City of Folsom	15,270	14,720	550	3.60
	State of California	14,404,600	16,241,800	1,162,800	6.70
	United States	144,863,000	136,485,000	8,378,000	5.78
2003	City of Folsom	15,531	14,934	597	3.84
	State of California	17,669,500	16,463,300	1,206,200	6.80
	United States	147,096,000	137,738,000	9,358,000	6.36
2004	City of Folsom	15,770	15,240	530	3.36
	State of California	17,737,000	16,718,200	1,018,800	5.74
	United States	148,136,000	140,092,000	8,044,000	5.43

Source: State of California, Employment Development Department and Bureau of Labor Statistics. Note: Annual average data is not available for 2004. The 2004 figure is reflective of labor force statistics for the month of December 2004.

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Three major job categories comprise approximately 72% of the work force within the County: government, services and retail trade. The following Table A-5 sets forth the employment data for the Sacramento primary metropolitan statistical area.

Table A-5
EMPLOYMENT BY INDUSTRY, OCTOBER 2004
SACRAMENTO PMSA (EL DORADO, PLACER AND SACRAMENTO COUNTIES)

<u>Industry</u>	<u>Employment</u>	<u>Percent</u>
Agriculture	2,900	0.39%
Government	198,200	26.35
Private	551,100	73.27
Goods Producing	98,400	13.08
Construction and Mining	60,600	8.06
Manufacturing	37,800	5.03
Service Providing	452,700	60.18
Wholesale Trade	21,100	2.81
Retail Trade	85,200	11.33
Transportation, Warehousing and Utilities	15,100	2.01
Financial Activities	53,900	7.17
All Other Services (non-Government)	<u>277,400</u>	<u>36.88</u>
Total All Industries	752,200	100.00%

Source: State of California, Employment Development Department, Labor Market Information; <http://www.calmis.ca.gov/htmlfile/msa/sacto.htm>. Note: All other services include Information, Professional and Business Services, Educational and Health Services, Leisure and Hospitality and Other Services.

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Effective Buying Income (“EBI”) is reported annually by Sales & Marketing Management in its “Survey of Buying Power and Media Markets.” It is defined as personal income less personal income taxes, non-tax payments (fines, fees and penalties), personal contributions for social insurance, and compensation paid to military and diplomatic personnel stationed overseas.

The total EBI and Median household EBI for the City for 2004 was \$1,671,773,000 and \$60,937, respectively. There are no comparable EBI figures for the City for 2002 through 2003. The following Table A-6 and Table A-7 show a comparative record of total EBI and median household EBI for the County, the State and the United States.

Table A-6
TOTAL EFFECTIVE BUYING INCOME
2000 - 2004
(\$ in thousands)

<u>Year</u>	<u>County of Sacramento</u>	<u>State of California</u>	<u>United States</u>
2000	\$20,192,052	\$590,376,683	\$4,877,786,658
2001	22,895,128	652,190,282	5,230,824,904
2002	22,127,872	650,521,407	5,303,481,498
2003	22,645,845	647,879,427	5,340,682,818
2004	23,979,765	674,721,020	5,466,880,008

Source: “Survey of Buying Power and Media Markets,” Sales and Marketing Management.

Table A-7
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME
2000 – 2004

<u>Year</u>	<u>County of Sacramento</u>	<u>State of California</u>	<u>United States</u>
2000	\$37,152	\$39,492	\$37,233
2001	40,970	44,464	39,129
2002	40,690	43,532	38,365
2003	39,879	42,484	38,035
2004	40,448	42,924	38,201

Source: “Survey of Buying Power and Media Markets,” Sales and Marketing Management.

Commercial Activity

The City has a variety of retail shopping facilities. There are currently three major commercial areas in the City, which include the central business district the factory-outlet malls and the power center along East Bidwell Street. Future development of the Broadstone area is still in the planning stages, with a regional mall expected by 2007. The following Table A-8 shows the City's taxable transactions from 1999 to 2003.

Table A-8
CITY OF FOLSOM
TAXABLE TRANSACTIONS
1999 - 2003(\$ in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003[†]</u>
Retail Stores					
Apparel stores	\$40,843	\$48,085	\$57,371	\$63,884	67,820
General merchandise stores	92,542	106,378	116,933	118,735	172,768
Food stores	32,872	39,085	45,199	44,475	48,540
Eating and drinking places	61,230	69,094	81,548	89,968	94,468
Home furnishing/appliances	18,268	20,622	21,006	32,445	35,113
Building materials/farm implements	41,035	63,007	103,365	117,783	119,710
Auto dealers and auto supplies	330,597	424,449	481,360	577,373	577,142
Service stations	23,294	29,642	39,048	39,852	49,082
Other retail stores	<u>52,510</u>	<u>82,876</u>	<u>110,754</u>	<u>112,589</u>	<u>131,159</u>
TOTAL RETAIL STORES	\$693,510	\$883,238	\$1,056,584	\$1,197,104	\$1,295,802
All Other Outlets	<u>103,539</u>	<u>157,204</u>	<u>146,243</u>	<u>132,053</u>	<u>128,410</u>
TOTAL	\$797,049	\$1,040,442	\$1,202,827	\$1,329,157	\$1,424,212

[†] Details by type of store are not yet available.

Source: State Board of Equalization.

Industrial and Commercial Development

The City has experienced a large amount of new industrial and commercial development in recent years. This has been the result of the rapid growth of office and technology-related development in the Highway 50 corridor from the City of Sacramento east to the City. Intel Corporation opened its 214 acre Folsom Campus in 1984, and has become not only the largest employer in the City, but one of the largest private employers in the entire Sacramento region. The Lake Forest Technical Park, a development of approximately 100 acres, consists of research and development and light industrial projects. Cal-ISO (California Independent System Operator), the operator of the State's wholesale power grid, is situated in the Lake Forest Technical Park. Verizon Wireless, a cellular telephone operator, and Maximus, a government program management company, are both located in the nearby Parkshore Plaza business park. Aerojet General Corporation, which is situated immediately to the south of the City, has been a major research and manufacturing Facility for aerospace vehicles since the early 1950s.

Major Employers

Major employers in the region encompassing the City are shown in the Table A-9 below.

Table A-9
CITY OF FOLSOM
MAJOR EMPLOYERS IN THE REGION
As of July, 2005

<u>Business</u>	<u>Product/Service</u>	<u>Number of Employees</u>
Intel Corporation	Electronic Manufacturers	7,000
California State Prison - Sacramento	Prison	1,450
Verizon	Cellular Telephone Operator	1,100
Folsom State Prison	Prison	975
FCUSD	School District	875
Peterson's Folsom Lake Enterprises	Auto Dealers	580
California ISO	Utilities	550
Maximus	Government Program Management	550
City of Folsom	Government Entities	480
Mercy Hospital of Folsom	Hospitals	450
Folsom Lake College	Community College	375
Wal-Mart Stores	Retail Sales	275
The Home Depot	Home Improvement Centers	270
Video Products Distributors, Inc.	Video Tapes	250
Kaiser Permanente	Healthcare Plans	250
Costco	Retail Sales	230
Sam's Club	Retail Sales	225
Lowe's	Home Improvement Centers	225
Kohl's	Department Store	200
Raley's	Grocers	175
Folsom Lake Dodge	Auto Dealers	160
HDR Engineering, Inc.	Engineering Services	140
Folsom Chevrolet	Auto Dealers	140
Best Buy	Retail Sales	137
Lake Natoma Inn	Hotels/Motels/Inns/Bed and Breakfast	127
e.Republic, Inc.	Publishers	125
Mervyn's	Retail Sales	120
Winco	Grocers	115
Agilent Technologies	Manufacturer	113
Elliott Homes, Inc.	Real Estate Developers	103
People's Chrysler/Plymouth/Jeep/Hyundai	Auto Dealers	100
Trader Joe's	Retail Sales	100

Source: City of Folsom Economic Development Department.

Construction Activity

The following Table A-10 summarizes building permits and construction valuation in the City for the last five fiscal years.

Table A-10					
CITY OF FOLSOM					
ANNUAL CONSTRUCTION PERMIT VALUES					
2000-2004					
<u>Type of Permit</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Residential:					
	232,121,631	279,360,565	123,475,305	179,832,336	183,317,499
Multi-Family Residences	64,347,176	26,788,414	33,502,922	10,829,455	17,406,822
Mobile Home Setup	6,000	67,000	9,200	11,100	-
Additions/Alterations	<u>4,542,691</u>	<u>5,118,796</u>	<u>6,463,292</u>	<u>8,362,776</u>	<u>7,311,962</u>
Total	301,017,498	311,334,775	163,450,719	199,035,667	208,036,283
Non-Residential:					
New Commercial	36,717,148	96,779,098	25,895,852	42,466,923	22,965,901
New Industrial	454,368	-	-	-	0
Motels/Hotels	-	-	5,555,758	5,591,834	2,755,496
Schools/Churches	-	3,138,283	1,265,069	-	-
Additions/Alterations	<u>23,576,183</u>	<u>23,212,811</u>	<u>17,895,337</u>	<u>12,314,277</u>	<u>20,445,841</u>
Total	60,747,699	123,130,192	50,612,016	60,373,034	46,167,238
Total Other	<u>12,762,384</u>	<u>14,352,015</u>	<u>13,688,134</u>	<u>12,889,598</u>	<u>21,340,010</u>
Total Valuation	374,527,581	448,816,982	227,750,869	272,298,299	275,543,531
Source: City of Folsom, Building Inspection Division. Note: Residential additions/alterations include permits for private garages and additions/alterations; the non-residential category includes both commercial and industrial additions/alterations.					

Water Supply

The City currently obtains all of its water supply from Folsom Lake, pursuant to several different contracts. The City has the right to use up to 34,000 acre-feet of water, which will accommodate the full build-out of the City. Presently, the City uses approximately 18,000 acre-feet annually.

The City also contracts with the Sacramento County Water Agency for up to 7,000 acre-feet of water for use in the East Area. This water supply is federally controlled CVP (Central Valley Project) water, and is subject to several conditions, including a possible reduction in dry years.

The City's Water Treatment Plant produces and delivers high-quality drinking water. The Water Division of the City's Utilities Department inspects and maintains 269 miles of water mains, 16,519 service connections, and 2,064 fire hydrants. The City has recently initiated a three-year Drinking Water Improvement Program (DWIP) to upgrade the Water Treatment Plant to meet the latest state water regulations and ensure a safe and reliable drinking water supply.

Community Facilities

The four-county Sacramento Metropolitan Area offers 95 parks, 85 playgrounds, 45 theaters and 19 golf courses. Recreational activities offered along the American and Sacramento Rivers include fishing, swimming, boating, biking, horseback riding and hiking. Varied cultural opportunities include 33 art galleries and museums, two major symphonies, three ballet companies, scores of movie theaters showing first run films and many theater groups offering live stage plays.

Media outlets in the four-county area consist of more than 30 newspapers, nine television stations (four network, four independents, one public) and 30 radio stations.

Education

The Folsom-Cordova Unified School District operates schools both in the City and in the Sacramento suburb of Rancho Cordova, which borders the City to the west. In the City, the district now has one high school, one junior high, and five elementary schools. The district headquarters are located in the City.

Institutions of higher learning are situated in the central area of metropolitan Sacramento and include three community colleges, McGeorge School of Law, California State University Sacramento, and the University of California at Davis, which includes a Medical School and Law School. Folsom Lake College is part of the Los Rios Community College District, which includes Sacramento City College, American River College and Consumes River College. In addition to its Folsom Lake main campus, this college also operates the El Dorado and Rancho Cordova Centers, and has more than 8,000 students currently enrolled.

Utilities

The Sacramento Municipal Utility District ("SMUD") supplies electricity to the City and throughout Sacramento County. SMUD's electrical rates continue to be among the lowest in the nation.

The Pacific Gas and Electric Company ("PG&E") supplies natural gas to the City and throughout Sacramento County from sources in California, the Southwest and Canada. PG&E is one of the oldest utility companies in California and is the largest in the United States. For many years it has provided natural gas for the continually growing population in its service area.

The City is served by SBC Communications Inc., which is the principal telephone utility in Sacramento County. However, several telephone firms are active in the area, including General Telephone of California, Citizens' Utilities Company of California and the Roseville Telephone Company.

The City provides sewage collection services for the entire City. The Sewer Division of the City's Utilities Department inspects and maintains 244 miles of pipeline, 11 lift stations and 16,812 connections. Sewage treatment is provided by the Sacramento Regional County Sanitation District.

The City also provides solid waste collection services. The Solid Waste Division of the City's Utilities Department operates a fleet of 30 solid waste vehicles for collection, as well as providing recycling, hazardous waste disposal, and neighborhood cleanup services for the entire City.

Principal Taxpayers

The following Table A-11 is a list of the City's ten principal taxpayers as of June 30, 2004.

Table A-11 CITY OF FOLSOM TEN PRINCIPAL TAXPAYERS AS OF JUNE 30, 2004† (\$ in thousands)			
<u>Taxpayer</u>	<u>Type of Business</u>	<u>2004 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Intel Corporation	Electronic Manufacturing	\$526,354	8.70%
Kikkoman Foods, Inc.	Soy Sauce Manufacturer	61,493	1.02
Elliot Homes	Land Holding	55,237	0.91
Chelsea Financing Partnership LP	Electronic Manufacturing	48,615	0.80
SPK Parkshore Plaza LLC	Shopping Center	43,811	0.72
Blue Ravine Investors LLC	Land Holding	38,340	0.63
Folsom Broadstone Inc.	Land Holding	35,292	0.58
Iron Point LLC	Shopping Center	31,621	0.52
Folsom Ranch LLC	Land Holding	30,715	0.51
FRE Twenty Seven LLC	Land Holding	<u>30,471</u>	<u>0.50</u>
TOTAL PRINCIPAL TAXPAYERS		\$901,949	14.92%

Source: Sacramento County Assessor 2003/04 Combined Tax Rolls.

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The following Table A-12 is a list of the City's ten largest taxpayers based on land holdings (acreage) as of June 30, 2004.

Table A-12
CITY OF FOLSOM
TEN PRINCIPAL TAXPAYERS – LAND HOLDINGS (ACREAGE)
AS OF JUNE 30, 2004
(\$ in thousands)

<u>Taxpayer</u>	<u>2004 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation[†]</u>
Intel Corporation	\$526,354	7.85%
Kikkoman Food Inc.	61,493	0.92
Elliot Homes	55,237	0.82
Mercy Hospital of Folsom	51,413	0.77
Chelsea Financing Partnership LP	48,615	0.73
SPK Parkshore Plaza LLC	43,811	0.65
Blue Ravine Investors LLC	38,340	0.57
Folsom Broadstone LLC	35,292	0.53
Iron Point LLC	31,621	0.47
Folsom Ranch LLC	<u>30,715</u>	<u>0.46</u>
TOTAL	\$922,891	13.77%

[†] Figures do not total due to rounding.

Source: HdL Coren & Cone, Sacramento County Assessor 2003/04 Combined Tax Rolls.

Other Taxes

On November 8, 1988 the voters in the County approved Measure A to increase the sales and use tax rate in the County by 0.5% for a period of 20 years. With this increase and the 1.25% increase implemented pursuant to the Fiscal Year 1991-92 State budget, the sales and use tax rate in the County is now 7.75%. The proceeds of the Measure A tax increase are administered by the Sacramento Transportation Authority and must be used to fund public road improvements (35% of the revenue), public road maintenance (28%), public transit functions (35%) and elderly and handicapped transportation functions (2%). It is anticipated that over the 20-year period that the tax will be in effect, an estimated \$1.1 billion will be generated for the County. The City's portion of the funds have been allocated towards maintenance and new projects within the City, including a bridge crossing and a light rail extension. The funds from Measure A can only be used for increased services and will not supplant existing City appropriations. On November 2, 2004, the voters in the County voted to extend the Measure A tax by 30 years, so that the tax now terminates in 2038.

On April 21, 1986, the City Council adopted an ordinance adopting the City's transient occupancy (hotel/motel) tax of 8%. This tax rate has not been changed since 1986.

No Default

The City has never defaulted in the payment of principal of or interest on any of its loans, bonds, notes or other debt obligations or on any of its lease obligations.

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APPENDIX B

ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

AUDITED COMPONENT UNIT
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2004



CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

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Gilbert Associates, Inc.
CPAs and Advisors

**INDEPENDENT AUDITOR'S REPORT
ON COMPONENT UNIT FINANCIAL STATEMENTS**

**Honorable Mayor, City Manager and
Members of the Redevelopment Agency
of the City of Folsom
Folsom, California**

We have audited the accompanying governmental activities and each major fund of the Redevelopment Agency of the City of Folsom, California (the Agency), a component unit of the City of Folsom, California, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on this component unit's financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Redevelopment Agency of the City of Folsom and are not intended to present fairly the financial position and results of operation of the City of Folsom, California, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2004 consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**Honorable Mayor, City Manager and
Members of the Redevelopment Agency
of the City of Folsom**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Funds, as listed in the accompanying table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC

December 1, 2004

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004

As management of the City of Folsom Redevelopment Agency (Agency), we offer readers of the Redevelopment Agency's financial statements this narrative overview and analysis of the financial activities of the City of Folsom Redevelopment Agency for the fiscal year ended June 30, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. These two sets of financial statements provide two different views of the Agency's financial activities and financial position, long and short-term views.

The **Government-wide Financial Statements** are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

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

The **Statement of Activities** explains the change in net assets for the year in detail, with the emphasis on measuring the net revenues or expenses of each the Agency's programs.

Fund Financial Statements are designed to report detailed information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives, and focus primarily on the short-term activities of the Agency. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements; however their focus is on near-term inflows and outflows of spendable resources, and the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The Governmental Fund Financial Statements provide detailed information about each of the Redevelopment Agency's funds.

For the fiscal year ended June 30, 2004, the Redevelopment Agency adopted annual appropriated budgets for the special revenue funds. A budgetary comparison statement has been provided for the Central Folsom Redevelopment Project Fund and the Low/Moderate Housing Fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes to the financial statements can be found on pages 13 – 22 of this report.

Compliance Report

The Report on Compliance and on Internal Control can be found on page 23 – 24 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second year the Agency has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), **Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments**. Because this reporting model changed significantly both the recording and presentation of financial data,

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

the Redevelopment Agency's audited financial statements for fiscal year 2003 did not provide comparative information in its MD&A. This year marks the first time that two years of financial information is available in the GASB 34 format.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Agency, assets exceeded liabilities by \$12,992,697 at the close of the current fiscal year.

The largest portion of the Agency's net assets (68%) is unrestricted, \$8,076,397 and may be used to meet the Agency's ongoing obligations to citizens and creditors; (29%) is restricted for debt service and low/moderate income housing and (3%) reflects its investment of \$475,333 in capital assets (e.g., land, construction in progress, buildings and improvements, infrastructure and machinery and equipment, less any related outstanding debt to acquire these assets). The Agency uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the Agency's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be liquidated for these liabilities.

City of Folsom Redevelopment Agency Net Assets

	Governmental Activities	
	2004	2003
Current and other assets	\$ 16,314,120	\$ 14,349,657
Capital assets	5,700,333	5,745,736
Total assets	22,014,453	20,095,393
Long-term liabilities outstanding	8,282,230	6,264,660
Other liabilities	739,526	1,171,708
Total liabilities	9,021,756	7,436,368
Invested in capital assets, net of related debt	475,333	155,736
Restricted	4,440,967	3,495,254
Unrestricted	8,076,397	9,008,035
Total net assets	\$ 12,992,697	\$ 12,659,025

The agency's total revenues and expenses were \$5,325,119 and \$4,991,447, respectively for the fiscal year ending June 30, 2004. Of the total revenues \$5,093,945 or 95% were from property taxes.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004

City of Folsom Redevelopment Agency Changes in Net Assets

	Governmental Activities	
	2004	2003
Revenues		
Program revenues:		
Charges for services	\$ 120,825	\$ 418,510
General revenues:		
Property taxes	5,093,945	4,738,957
Investment earnings	110,349	220,020
Total revenues	<u>5,325,119</u>	<u>5,377,487</u>
Expenses		
General government	4,727,832	1,176,928
Interest	263,615	396,324
Total expenses	<u>4,991,447</u>	<u>1,573,252</u>
Increase in net assets	333,672	3,804,235
Net assets, beginning of year	<u>12,659,025</u>	<u>8,854,790</u>
Net assets, end of year	\$ <u>12,992,697</u>	\$ <u>12,659,025</u>

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The Agency's special revenue funds consist of the Central Folsom Redevelopment Project Fund and the Low/Moderate Housing Fund. The unreserved fund balances as of June 30, 2004 were \$8,907,137 and \$0 respectively. Tax increment revenues provide the majority of revenue. The percentage of tax increment revenue for the Low/moderate Housing fund has been increased through action by the Redevelopment Agency Board from 20% to 25% with a resultant decrease of 5% to the Central Folsom Redevelopment Project Fund.

As of June 30, 2004, the Agency's governmental funds reported combined ending fund balances of \$15,681,271, an increase of \$1,716,663 in comparison with the prior fiscal year.

Revenues for governmental functions overall totaled \$5,325,119 in fiscal year 2004, which represents a decrease of \$52,368 in comparison with the prior fiscal year and is primarily due to a decline in interest earnings. Expenditures for governmental functions, totaling \$3,237,526, increased by \$1,429,404 from the prior fiscal year.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

BUDEGTARY HIGHLIGHTS

The difference of \$565,065 between the original budget and the final amended budget for the Central Folsom Redevelopment Project Fund reflects an additional amount for the Folsom Dam Road closure and to fund additional AB1290 programs such as Downtown Revitalization, Commercial Rehabilitation, Capital Improvement, and Murer House restoration.

Differences between the original budget and the final amended budget for the Low/Moderate Housing Fund totaling \$25,000 reflect the City's intent to fund a Seniors Handyman program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Agency's investment in capital assets for its governmental activities as of June 30, 2004 amounts to \$5,700,333. This investment in capital assets includes land, construction in progress, buildings, improvements and equipment. The total decrease in the Agency's capital assets for the current fiscal year was -0.79% as shown in the table below. Additional information on the Agency's capital assets can be found in Note 3 of this report.

Changes in Capital Assets, Net of Depreciation

	2004	2003
Land	\$ 3,888,457	\$ 3,809,974
Construction in progress	-	140,766
Buildings	1,630,672	1,718,760
Improvements	179,303	73,075
Equipment	1,901	3,161
Total	\$ 5,700,333	\$ 5,745,736

Long-term Debt – At the end of the current fiscal year, the Redevelopment Agency had total bonded debt outstanding of \$5,225,000. The Redevelopment Agency also has Owner Participation Agreements totaling \$3,057,230. During the year Owner Participation Agreement debt increased by \$2,394,870 as management reviewed the terms of the agreements and determined additional payments would be required. The other change during the fiscal year was payments on the bonds and owner participation agreements. Additional information on the Agency's long-term debt can be found in Note 4.

Economic Factors

Although the California economy as a whole has improved with the national economy, returning to a steady rate of growth, the state budget is in a severe deficit situation. Agency officials continue to carefully monitor the state's actions with regards to correcting the deficit, as certain legislation may be passed that could negatively impact Redevelopment Agency revenues.

Requests for Information

This component unit financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the City of Folsom Redevelopment Agency finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Folsom Finance Department, 50 Natoma Street, Folsom, California 95630, (916) 355-7200 or visit the City's web site at www.folsom.ca.us.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY STATEMENT OF NET ASSETS JUNE 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 11,774,160
Receivables, net of allowance for uncollectibles	2,412,166
Due from other governments	197,487
Advances to City of Folsom	67,828
Land held for resale	1,045,000
Restricted assets - cash and investments	817,479
Capital assets, net of accumulated depreciation	<u>5,700,333</u>
Total assets	<u>22,014,453</u>
LIABILITIES:	
Accounts payable	268,274
Wages payable	17,677
Interest payable	106,677
Accrued compensated absences	23,671
Deferred revenue	323,227
Long-term liabilities	
Due within one year	784,470
Due in more than one year	<u>7,497,760</u>
Total liabilities	<u>9,021,756</u>
NET ASSETS:	
Invested in capital assets, net of related debt	475,333
Restricted for:	
Debt service	700,000
Low/moderate income housing	3,740,967
Unrestricted	<u>8,076,397</u>
Total net assets	<u>\$ 12,992,697</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

GOVERNMENTAL ACTIVITIES:	
OPERATING EXPENSES:	
General government	\$ 4,727,832
Interest on long-term debt	<u>263,615</u>
Total operating expenses	<u>4,991,447</u>
PROGRAM REVENUES:	
Charges for services	<u>120,825</u>
NET EXPENSES	<u>(4,870,622)</u>
GENERAL REVENUES:	
Tax increment	5,093,945
Investment earnings	<u>110,349</u>
Total general revenues	<u>5,204,294</u>
Change in net assets	333,672
Net assets, beginning of year	<u>12,659,025</u>
Net assets, end of year	<u>\$ 12,992,697</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY BALANCE SHEET - GOVERNMENTAL FUNDS AS OF JUNE 30, 2004

	Major Funds				TOTAL GOVERN- MENTAL FUNDS
	Special Revenue Funds		Debt Service	Capital Projects	
	Central Folsom Redevelopment Project	Low/ Moderate Housing			
ASSETS					
Cash and investments	\$ 9,654,373	\$ 1,798,817	\$ -	\$ 320,970	\$ 11,774,160
Receivables, net of allowances for uncollectibles:					
Accrued interest	35,848	6,660	7,467	1,464	51,439
Loans	1,460,668	900,059	-	-	2,360,727
Due from other governments	148,115	49,372	-	-	197,487
Advances to City of Folsom	67,828	-	-	-	67,828
Land held for resale	-	1,045,000	-	-	1,045,000
Restricted assets:					
Cash with fiscal agent	-	-	817,479	-	817,479
TOTAL ASSETS	\$ 11,366,832	\$ 3,799,908	\$ 824,946	\$ 322,434	\$ 16,314,120
LIABILITIES AND FUND BALANCE					
Accounts payable	\$ 206,821	\$ 3,362	\$ -	\$ 58,091	\$ 268,274
Wages payable	9,279	8,398	-	-	17,677
Accrued compensated absences	14,674	8,997	-	-	23,671
Deferred revenue	285,043	38,184	-	-	323,227
TOTAL LIABILITIES	515,817	58,941	-	58,091	632,849
FUND BALANCE:					
Reserved for:					
Loans receivable	1,175,625	861,875	-	-	2,037,500
Encumbrances	700,425	500,000	-	611,237	1,811,662
Advances to City	67,828	-	-	-	67,828
Debt service	-	-	817,479	-	817,479
Land held for resale	-	1,045,000	-	-	1,045,000
Low and moderate income housing	-	1,334,092	-	-	1,334,092
Unreserved:					
Designated for budgeted projects	-	-	-	472,787	472,787
Designated for debt service	-	-	7,467	-	7,467
Undesignated	8,907,137	-	-	(819,681)	8,087,456
TOTAL FUND BALANCE	10,851,015	3,740,967	824,946	264,343	15,681,271
TOTAL LIABILITIES AND FUND BALANCE	\$ 11,366,832	\$ 3,799,908	\$ 824,946	\$ 322,434	\$ 16,314,120

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 15,681,271
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds' balance sheet.	5,700,333
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds' balance sheet:	
Interest payable accrued on long-term liabilities	(106,677)
Bonds and notes payable	<u>(8,282,230)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 12,992,697</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Major Funds				TOTAL GOVERN- MENTAL FUNDS
	Special Revenue Funds		Debt Service	Capital Projects	
	Central Folsom Redevelopment Project	Low/ Moderate Housing			
REVENUES:					
Tax increment revenues	\$ 3,979,413	\$ 1,114,532	\$ -	\$ -	\$ 5,093,945
Charges for services	64,589	56,236	-	-	120,825
Interest revenue	89,281	8,446	10,579	2,043	110,349
TOTAL REVENUES	4,133,283	1,179,214	10,579	2,043	5,325,119
EXPENDITURES:					
Current operating:					
General government	704,307	248,297	-	-	952,604
Capital outlay	-	-	-	964,023	964,023
Debt service:					
Principal payments	685,591	-	365,000	-	1,050,591
Interest and fiscal charges	-	-	270,308	-	270,308
TOTAL EXPENDITURES	1,389,898	248,297	635,308	964,023	3,237,526
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,743,385	930,917	(624,729)	(961,980)	2,087,593
OTHER FINANCING SOURCES (USES):					
Transfers in	-	222,218	632,470	1,040,167	1,894,855
Transfers out	(1,894,855)	-	-	-	(1,894,855)
Transfers to other City funds	(162,820)	(207,422)	-	(688)	(370,930)
TOTAL OTHER FINANCING SOURCES	(2,057,675)	14,796	632,470	1,039,479	(370,930)
NET CHANGE IN FUND BALANCE	685,710	945,713	7,741	77,499	1,716,663
FUND BALANCE, JULY 1	10,165,305	2,795,254	817,205	186,844	13,964,608
FUND BALANCE, JUNE 30	\$ 10,851,015	\$ 3,740,967	\$ 824,946	\$ 264,343	\$ 15,681,271

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 1,716,663
<i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets when completed is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period, net of prior year construction in progress capitalized in current year.		46,728
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net assets. Change in owner participation agreements		(2,394,870)
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.		(92,133)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Tax allocation bonds payable	\$ 365,000	
Owner participation agreements	685,591	1,050,591
Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds		
Change in accrued interest		<u>6,693</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 333,672</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General

The basic financial statements of the Redevelopment Agency of the City of Folsom (Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government funds. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The Redevelopment Agency of the City of Folsom was established on August 1, 1983, as set forth in the Health and Safety Code of the State of California. The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the City of Folsom (the City). The council members of the City also serve as the governing board of the Agency. The City performs all accounting and administration functions.

The Agency has established one redevelopment project area, known as the Central Folsom Redevelopment Project.

The Agency's primary source of revenue, other than loans and advances from the City, comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue." Property taxes allocated to the Agency are computed in the following manner:

- The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
- Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts.

The Agency meets the criteria set forth under the Governmental Accounting Standards Board (GASB) Statement 14, as amended by Statement 39, for inclusion as a blended component unit within the City of Folsom reporting entity based on the City's oversight responsibility in selection of the governing board. In addition, all of the Agency's activities are conducted within the geographic boundaries of the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. The Agency uses only governmental activities, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and
- Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

The accounts of the Agency are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds. Under the criteria defined by GASB No. 34, all of the Agency funds are considered to be major individual governmental funds and are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental Funds

Governmental Fund Types: Governmental funds are used to account for the Agency's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the Agency's governmental fund types:

Special Revenue Funds – Special Revenue Funds are used to account for specific revenues that are restricted by law or administrative action to expenditures for particular purposes. These funds are used to account for advances to property owners to provide construction of housing for eligible low and moderate income families.

The Agency reports the following major special revenue governmental funds:

- Central Folsom Redevelopment Project Special Revenue Fund – Central Folsom Redevelopment Project accounts for tax increment income and advances from the City of Folsom. Expenditures from this fund are primarily used for administrative expenses and redevelopment project costs.
- Low/Moderate Housing Special Revenue Fund – The Low/Moderate Housing Fund accounts for tax increment income which will be used by the Agency for the purposes of increasing and improving the City's supply of housing for persons and families of very low or moderate income.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

Additionally, the City reports the following major governmental fund types:

- Debt Service Fund – A Debt Service Fund is established for the project area to account for tax increment revenues, bond proceeds, amounts set aside for future debt service, and related interest income. The funds are used to repay principal and interest on indebtedness of the Agency.
- Capital Projects Fund – Capital Projects Fund accounts for the construction proceeds of the Redevelopment Agency Refunding Tax Allocation Bonds, Series 1997.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Tax Increment Financing

Tax increment financing has been established pursuant to the California Community Redevelopment Law. It is defined as the excess of taxes levied and collected each year in a redevelopment project area over and above the amount which would have been produced, at current rates, by the assessed value shown on the assessment roll last equalized prior to the effective date of the ordinance of the City establishing the redevelopment project area. Such funds are restricted to pay the principal and interest on loans, monies advanced to, or indebtedness incurred by, the Agency to finance or refinance such redevelopment project and are available to the Agency only after indebtedness, which is certified by the State of California, is incurred.

When the Agency's loans, advances and indebtedness, if any, together with interest thereon have been paid, all monies thereafter received from taxes upon the taxable property in such redevelopment project shall be paid into the funds of the respective taxing agencies.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at year end are reported as reservations of fund balance. Encumbrances do not constitute expenditures or liabilities. All appropriations remaining at year-end lapse.

Cash and Investments

The cash and investments of the Agency are kept in a pool along with the other funds of the City for the purpose of increasing interest earnings through combined investment activities. Investments are stated at fair value.

Receivables and Payables

Property taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. The amount recognized as revenue under the modified accrual basis is limited to the amount that is deemed measurable and collectible.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

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

Advances between funds, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds to indicate they do not constitute resources available for appropriation.

Land held for resale – Represents land acquired by the Agency that is intended to be held for sale at a future date.

Restricted Assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The Agency defines capital assets, as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at the lower of actual historical cost or fair market value (as of the date donated for contributed assets) although for certain older assets estimated historical costs are used.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized.

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings	30
Improvements	3 – 15
Equipment	3 – 15

GASB Statement No. 34 requires that the Agency report infrastructure including roads, bridges, sidewalks and traffic signals, in the government-wide financial statements. Prospective reporting of general infrastructure assets is required upon implementation of GASB Statement No. 34. However, the Agency has applied transition provisions for retroactive reporting of infrastructure assets, which extends the retroactive reporting requirements through the fiscal year ending June 30, 2007. No later than this date, the Agency must capitalize and report major general infrastructure assets that were acquired or received major renovations, restorations, or improvements in fiscal years ended June 30, 1980 through June 30, 2002.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

Deferred Revenue

Deferred revenue in governmental funds consists of long-term loans receivable whose terms include forgiveness at the end of the loan period.

Owner Participation Agreements

The Agency enters into Owner Participation Agreements with property owners in Folsom to encourage the development and improvement of the land. These Agreements provide for reimbursement by the Agency to the property owner for certain costs and improvements incurred. They are typically paid based on a percentage of the tax increment revenue received after the development has been completed and is paid over a fixed term, generally ten years. The Agency reports a liability for these payments based on a percentage of projected tax increment revenue to be received over the life of the agreement.

Because of the significant increases in property values in Folsom, California over the past several years, the Agency experienced a corresponding increase in reimbursement amounts paid under its Owner Participation Agreements. As a result, the Agency increased its estimated liability to account for the increase in projected tax increment revenue. The effect of this change was reported as an increase in current operating expenditures and correspondingly decreased the change in net assets by \$2.4 million for the year ended June 30, 2004.

Fund Balances

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The following is a descriptive list of the reserves and designations used by the Agency.

- *Reserved for loans receivable* – used to indicate that the long-term portion of loans receivable do not represent available, spendable resources even though they are a component of assets.
- *Reserved for encumbrances* – used to represent that portion of fund balance committed for materials and services on purchase orders and contracts, not completed at year end.
- *Reserved for advances to city* – used to indicate that the advances to the City of Folsom do not represent available, spendable resources even though they are a component of assets.
- *Reserved for debt service* – used to represent that portion of fund balance/retained earnings segregated for service of long-term indebtedness.
- *Land held for resale* – Reflects non-current resources not considered as current available funds.
- *Low-moderate income housing* – Set aside for eligible low and moderate income family housing.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

Property Taxes

Article XIII of the California Constitution (Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the base and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors. Property taxes are receivable and recorded in the fiscal year for which the tax is levied. Revenue is recognized when measurable and available. Property taxes collected in advance are recorded as deferred revenue and recognized in the year they become available. The County of Sacramento levies, bills and collects property taxes for the Agency. Incremental property tax revenues represent property taxes arising from increased assessed valuations over base valuation established at the inception of the project area. Incremental property taxes from each project area accrue to the Agency until all liabilities and commitments of the project area have been repaid (including cumulative funds provided or committed by the Agency). After all such indebtedness has been repaid; all property taxes from the project area revert back to the various taxing authorities.

Secured and unsecured property taxes are levied based on the assessed value as of March 1, the lien date, of the preceding fiscal year. Secured property tax is levied on September 30 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10, which are also the delinquent dates.

The City has elected to receive the property taxes from the County under the Teeter Bill. Under this program, the City receives 100% of the levied property taxes in periodic payments with the County assuming responsibility for the delinquencies.

Budgetary Data

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except capital projects and debt service funds, which adopt multi-year length budgets. The level of control (i.e. the level at which expenditures may not legally exceed appropriations) is at the fund level. All appropriations remaining at year-end lapse, except for purchases in progress which are carried forward to the following year and reserved by encumbrances. The following procedures are used to establish the budgetary data reflected in the financial statements:

- (A) Department Heads prepare a budget request based upon the previous year's expenditures.
- (B) Meetings are held between the Department Heads, Finance Director, and City Manager for the purpose of reviewing and prioritizing the budget requests.
- (C) The City Manager submits the proposed city budget to the City Council, who makes decisions regarding department budgets.
- (D) Transfers between funds and changes in the total budget must be approved by the City Council.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

Annual Financial Statements

These financial statements are intended to reflect the financial position, results of operations and compliance of the Redevelopment Agency of the City of Folsom. The comprehensive annual financial report of the City of Folsom, California is available at the Finance department.

Interfund Transfers

Transfers report the nonreciprocal contribution of resources from one fund to another. Since the Agency is a component unit of the City of Folsom, California, various interfund transfers were made to finance expenditures, and service debt.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The City pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments held in the City's cash and investments pool are available on demand and are stated at fair value. The value of pool shares that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

The Agency's share of the City's pooled cash and investments and cash with fiscal agent at June 30, 2004 was \$ 11,774,160 and \$817,479, respectively. The City's Comprehensive Annual Financial Report contains further details regarding cash and investments and can be obtained from the City's Finance Department located at 50 Natoma Street, Folsom, CA 95630 or visit the City's website at www.folsom.ca.us

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004**

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 3,809,974	\$ 78,483	\$ -	\$ 3,888,457
Construction in progress	140,766	-	(140,766)	-
Total capital assets, not being depreciated	3,950,740	78,483	(140,766)	3,888,457
Capital assets, being depreciated:				
Buildings	2,646,128	-	-	2,646,128
Improvements	108,260	109,013	-	217,273
Equipment	12,238	-	-	12,238
Total capital assets, being depreciated	2,766,626	109,013	-	2,875,639
Less accumulated depreciation for:				
Buildings	(927,368)	(88,088)	-	(1,015,456)
Improvements	(35,185)	(2,785)	-	(37,970)
Equipment	(9,077)	(1,260)	-	(10,337)
Total accumulated depreciation	(971,630)	(92,133)	-	(1,063,763)
Governmental activities capital assets, net	\$ 5,745,736	\$ 95,363	\$ (140,766)	\$ 5,700,333

4. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Agency for the year ended June 30, 2004:

Governmental Activities	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amount Due within one year
Tax allocation bonds	\$5,590,000	\$ -	\$ (365,000)	\$5,225,000	\$ 395,000
Owner participation agreements:					
No. CA Devel. Corp.	30,000	-	(30,000)	-	-
Gaslight Properties	157,000	-	(23,000)	134,000	23,000
Kikkoman Food, Inc.	619,640	1,589,571	(260,981)	1,948,230	216,470
Speiker Properties, LP	541,311	805,299	(371,610)	975,000	150,000
Total owner participation agreements	1,347,951	2,394,870	(685,591)	3,057,230	389,470
Governmental activities long-term liabilities	\$6,937,951	\$2,394,870	\$(1,050,591)	\$8,282,230	\$ 784,470

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2004

Tax Allocation Bonds

In July, 1997, the Agency issued the Redevelopment Agency Refunding Tax Allocation Bonds, Series 1997 for \$7,000,000 with interest rates of 3.8% to 5.25%. The bonds mature beginning August 1, 1998 through 2013. The bonds were issued to refund the 1987 Series A and 1991 Redevelopment Bond issues, to fund a reserve, and to pay associated issue costs.

Annual debt service requirements to maturity for the tax allocation bonds are as follows:

Year Ending June 30	Principal	Interest
2005	\$ 395,000	\$ 247,136
2006	425,000	228,474
2007	455,000	208,120
2008	490,000	186,026
2009	525,000	161,911
2010-2014	2,935,000	359,098
Total	\$ 5,225,000	\$ 1,390,765

Owner Participation Agreements

In August 1995, the Agency entered into an owner participation agreement with Gaslight Properties, Inc. for \$272,000 to be paid in eleven annual installments of \$23,000 with one remaining payment of \$19,000. The agreement provides for reimbursement of fees and costs associated with the construction of a building on Sutter Street to be paid from property tax increment.

In January 1997, the Agency entered into an owner participation agreement with Kikkoman, Inc. with an estimate value of \$1,500,000 depending on the increase of assessed value on the property. The agreement will extend for ten years. During the current fiscal year, the City reviewed the terms of this agreement and estimated that an additional \$1,589,571 would be paid out over the course of the agreement.

In January 1997, the Agency entered into an owner participation agreement with Spieker Properties, L.P. with an estimate value of \$854,819 depending on the increase of assessed value on the property. The agreement will extend for ten years. During the current fiscal year, the City reviewed the terms of this agreement and estimated that an additional \$805,299 would be paid out over the course of the agreement.

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2004**

The annual requirements to amortize the Owner's Participation Agreements as of June 30, 2004 are as follows:

Year Ending June 30	Principal
2005	\$ 389,470
2006	389,470
2007	389,470
2008	389,470
2009	389,470
2010-2014	<u>1,109,880</u>
Total	<u>\$ 3,057,230</u>

5. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Agency as a component unit of the City has joined together with other Cities in the State of California to participate in Northern California Cities Self Insurance Fund (NCCSIF), a joint powers agency which provides the City with a shared risk layer of coverage above the self insured \$100,000 retention for liability and workers' compensation. In addition, NCCSIF provides claims servicing to the City for the banking layer, which represents the City's self insurance. The NCCSIF is composed of 20 member cities and is governed by a board of directors appointed by the member cities. The governing board has authority over budgeting and financing. The workers' compensation and general liability programs are administered by third-party administrators. Condensed financial information for NCCSIF is included in the City's Comprehensive Annual Financial Report.

COMPLIANCE REPORT





Gilbert Associates, Inc.
CPAs and Advisors

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

**Honorable Mayor, City Manager and
Members of the Redevelopment Agency
of the City of Folsom
Folsom, California**

We have audited the component unit financial statements of the Redevelopment Agency of the City of Folsom (the Agency) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Findings and Recommendations section as item 04-8.

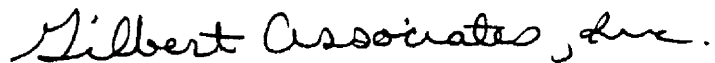
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider any of the reportable conditions to be material weaknesses.

**Honorable Mayor, City Manager and
Members of the Redevelopment Agency
of the City of Folsom
Folsom, California**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Those provisions include laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the California State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the Findings and Recommendations section as items 04-1 through 04-7.

This report is intended solely for the information and use of the Agency's Board, management, and the California State Controller. However, this report is a matter of public record and its distribution is not limited.



GILBERT ASSOCIATES, INC.

December 1, 2004

FINDINGS AND RECOMMENDATIONS SECTION



REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

STATE COMPLIANCE:

04-1. BLIGHT PROGRESS REPORT

Findings:

The Blight Progress Report for the year ended June 30, 2003 was not completed or submitted to the State Controller's Office as required by Health and Safety Code §33080.1 and §30080.4.

Recommendation:

We recommend that the Blight Progress Report be filed along with the Housing and Community Development Report within six months of the end of the agency's fiscal year with the State Controller's Office. The Blight Progress Report should include specific actions and a detail of the alleviated blight due to the expenditures made during the reporting period.

Agency's Response:

Management agrees and will comply and will file the report as recommended. Agency management and the City's Finance Department have created a reporting matrix, which identifies deadlines and have assigned responsibility to each specific department.

04-2. AFFORDABLE HOUSING ACTIVITIES REPORT

Findings:

We noted the Housing Activities Report for the year ended June 30, 2003 was filed with the Housing and Community Development Agency within the required time frame. However the report did not include the required affordable housing monitoring information in accordance with Health and Safety Code §33418. We found that the Agency does monitor this information on a regular basis therefore it should be readily available for inclusion in the report.

Recommendation:

We recommend the Agency include the affordable housing monitoring information in the Housing and Community Development Report and the Annual Report submitted to the State Controller's Office in compliance with Code §33080-33080.7 and §33418.

Agency's Response:

Management agrees and will include affordable housing monitoring information in the Annual Report as recommended. Agency management and the City's Finance Department have created a reporting matrix, which identifies deadlines and have assigned responsibility to each specific department.

REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

04-3. HOUSING FUND ADMINISTRATIVE EXPENDITURES - ANNUAL WRITTEN DETERMINATION

Findings:

In our testing of the June 30, 2003 administrative expenditures, we determined that wages were charged to the Housing Fund. However, the annual written determination that these expenses were necessary for the production, improvement, or preservation of low- and moderate-income housing in accordance with Health and Safety Code §33334.3(d) had not been prepared.

Recommendation:

We recommend the Agency make a written determination annually for the administrative and planning fees that are necessary for the production, improvement, or preservation of low- and moderate-income housing. The amount spent annually on administrative and planning expenditures should not be disproportionate to the amount spent on low- and moderate-income housing per Health and Safety Code §33334.3(d).

Agency's Response:

Management agrees this will be implemented with the submission of the Agency's annual budget.

04-4. PROPERTY REPORT

Findings:

In our testing of the annual filing requirements, we found that the June 30, 2003 Property Report was completed but not included in the June 30, 2003 annual report submitted to the State Controller's Office.

Recommendation:

We recommend the Agency prepare a property report which includes a description of the total number and nature of each property owned by the Agency and those properties the Agency has acquired in the reporting period. This report should be included as an attachment to the annual report filed annually with the State Controller's Office.

Agency's Response:

Management will submit annual property report as an attachment to the annual report filed with the State Controller's Office.

REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

04-5. REDEVELOPMENT PLAN - TIME LIMITS

Finding:

As required by Health and Safety Code Sections 33333.2, several time limits should be established within the Redevelopment Plan (the Plan) or plan amendments. During our testing we found that these time limits may not be consistent with the regulations for amendments adopted after January 1, 1994. The following time limits should apply:

- For Plans or plan amendments adopted on or after January 1, 1994, time limits on establishing loans, advances, and indebtedness should not to exceed 20 years from the adoption of the plan.
- For Plans or plan amendments adopted on or after January 1, 1994, the Agency is required to set a time limit not to exceed 45 years from adoption to repay indebtedness.
- For Plans or plan amendments adopted on or after January 1, 1994, the Agency is required to set a time limit not to exceed 12 years from adoption of the Plan for commencement of eminent domain proceedings.

Recommendation:

We recommend the Agency review its amendments to the Plan and ensure the time limits are consistent with regulations.

Agency's Response:

Management agrees. Agency Management will review current time limits.

04-6. CONFLICT OF INTEREST POLICY

Findings:

A redevelopment agency, as a local government agency, is subject to the Political Reform Act of 1974, and accordingly must adopt and promulgate a conflict of interest code that conforms to the requirements established by the Fair Political Practices Commission. The Agency has not adopted a conflict of interest code nor has it formally adopted the City of Folsom's conflict of interest policy. Health and Safety Code §33126 states that "an Agency shall adopt personnel codes that include conflict of interest procedures".

Recommendation:

We recommend the Agency work with the City of Folsom to determine if the City of Folsom's conflict of interest code includes the procedures required of the Agency, and if so to formally adopt this code for the Agency. Otherwise, a conflict of interest code that will meet the requirements should be created and formally adopted by the Agency.

REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

Agency's Response:

Management believes that a conflict of interest policy was adopted by the Agency sometime in the past. Management will research its legal documents to determine whether this policy does in fact exist. If not, a separate conflict of interest code meeting the requirements will be created and formally adopted by the Agency.

04-7. EXPENDITURES FROM PETTY CASH AND CREDIT CARDS

Finding:

In our testing of expenditures charged to the 20% Housing Fund, we found in 3 of the 25 items selected for sampling that credit cards and petty cash were used to purchase home improvement and repair supplies. Although receipts are attached for both credit card and the petty cash purchases no further documentation is included to show the location in which the supplies are being used. Because expenditures from the 20% Low-Income Housing Fund must meet certain compliance requirements to be eligible for expenditure under this Fund, without documentation supporting the location where the supplies are used we are unable to determine if the costs are allowable.

Recommendation:

The Agency should prepare a form or work order for the citizen receiving the supplies to sign that indicates the address and itemizes the supplies received. This receiving report, signed by the citizen, should be attached to every receipt. This will ensure that there is an adequate audit trail for eligible charges to the 20% Housing Fund.

Agency's Response:

Management agrees and will implement controls to document the location where supplies were used in order to facilitate allowable cost concerns.

04-8. QUESTIONED COSTS - EXPENDITURES OUTSIDE THE PROJECT AREA FROM THE LOW-INCOME HOUSING FUND

Finding:

During our testing of expenditures charged to the 20% Housing Fund, in our sample of 25 expenditures totaling \$8,650, 24 expenditures totaling \$7,905 (91%) were spent outside of the project area for the Seniors Helping Seniors program but were not supported by a resolution from the Agency's Board. Health & Safety Code § 33334.2(g) regulates that the Agency may only use these funds outside the project area upon a resolution of the Agency and the legislative body that the use of 20% Housing Funds outside the project area will be a direct benefit the project area. Without a resolution we are unable to determine if these expenditures were of a direct benefit to the project area and if they are considered allowable.

REDEVELOPMENT AGENCY OF THE CITY OF FOLSOM
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

Recommendation:

Prior to expenditures being made outside the project area, we recommend justification be provided to the Agency's board by resolution showing that the use of the 20% Housing Fund is of direct benefit to the project area. Otherwise, we recommend these expenditures be charged to the 80% Fund. Procedures should be taken to identify and reimburse the 20% Housing Fund for expenditures outside the project area without a formal resolution.

Agency's Response:

Management agrees and will take appropriate measures to comply with finding. The Agency will either adopt a resolution allowing these expenditures or charge them to the 80% fund.

REQUIRED SUPPLEMENTARY INFORMATION



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CITY OF FOLSOM, CALIFORNIA
 REDEVELOPMENT AGENCY
 SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

	Central Folsom Redevelopment Project			Variance with Final Budget Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
REVENUES:				
Tax increment revenues	\$ 3,089,250	\$ 3,089,250	\$ 3,979,413	\$ 890,163
Charges for services	50,000	50,000	64,589	14,589
Interest revenue	145,000	145,000	89,281	(55,719)
TOTAL REVENUES	<u>3,284,250</u>	<u>3,284,250</u>	<u>4,133,283</u>	<u>849,033</u>
EXPENDITURES:				
Current operating:				
General government	1,678,518	2,243,583	704,307	1,539,276
Debt Service:				
Principal Payments	-	-	685,591	(685,591)
TOTAL EXPENDITURES	<u>1,678,518</u>	<u>2,243,583</u>	<u>1,389,898</u>	<u>853,685</u>
EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>1,605,732</u>	<u>1,040,667</u>	<u>2,743,385</u>	<u>1,702,718</u>
OTHER FINANCING USES:				
Transfers in	-	-	-	-
Transfers out	-	-	(1,894,855)	(1,894,855)
Transfer to other City funds	(1,858,391)	(1,858,391)	(162,820)	1,695,571
TOTAL OTHER FINANCING USES	<u>(1,858,391)</u>	<u>(1,858,391)</u>	<u>(2,057,675)</u>	<u>(199,284)</u>
NET CHANGE IN FUND BALANCE	(252,659)	(817,724)	685,710	1,503,434
FUND BALANCE, JULY 1	<u>10,165,305</u>	<u>10,165,305</u>	<u>10,165,305</u>	
FUND BALANCE, JUNE 30	<u>\$ 9,912,646</u>	<u>\$ 9,347,581</u>	<u>\$ 10,851,015</u>	<u>\$ 1,503,434</u>

Low/Moderate Housing Fund				
Budget		Actual	Variance with Final Budget Favorable (Unfavorable)	
Original	Final			
\$ 1,029,750	\$ 1,029,750	\$ 1,114,532	\$ 84,782	REVENUES:
50,000	50,000	56,236	6,236	Tax increment revenues
15,000	15,000	8,446	(6,554)	Charges for services
<u>1,094,750</u>	<u>1,094,750</u>	<u>1,179,214</u>	<u>84,464</u>	Interest revenue
				TOTAL REVENUES
1,807,369	1,832,369	248,297	1,584,072	EXPENDITURES:
-	-	-	-	Current operating:
<u>1,807,369</u>	<u>1,832,369</u>	<u>248,297</u>	<u>1,584,072</u>	General government
				Debt Service:
				Principal Payments
				TOTAL EXPENDITURES
<u>(712,619)</u>	<u>(737,619)</u>	<u>930,917</u>	<u>1,668,536</u>	EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES
-	-	222,218	222,218	OTHER FINANCING USES:
-	-	-	-	Transfers out
<u>(207,422)</u>	<u>(207,422)</u>	<u>(207,422)</u>	<u>-</u>	Transfer to other City funds
<u>(207,422)</u>	<u>(207,422)</u>	<u>14,796</u>	<u>222,218</u>	TOTAL OTHER FINANCING USES
(920,041)	(945,041)	945,713	1,890,754	NET CHANGE IN FUND BALANCE
<u>2,795,254</u>	<u>2,795,254</u>	<u>2,795,254</u>	<u>-</u>	FUND BALANCE, JULY 1
<u>\$ 1,875,213</u>	<u>\$ 1,850,213</u>	<u>\$ 3,740,967</u>	<u>\$ 1,890,754</u>	FUND BALANCE, JUNE 30

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust dated as of July 1, 1997 (the "Original Indenture"), as amended by the First Supplemental Indenture dated as of August 1, 2005 (the "First Supplemental Indenture" and together with the Original Indenture the "Indenture"). This summary does not purport to be complete and is qualified in its entirety by reference to the Indenture. Capitalized terms not otherwise defined herein shall have the meanings as set forth in the Indenture.

Certain Definitions

"Additional Bonds" means all additional tax allocation bonds of the Agency authorized and executed pursuant to the Indenture and issued and delivered in accordance therewith.

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

"Annual Debt Service" means, for each Bond Year, the sum of (1) the interest falling due on the Outstanding Bonds in such year, assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds, if any, are redeemed from such Sinking Account Installments as may be scheduled, (2) the principal amount of the Outstanding Serial Bonds, if any, falling due by their terms in such year, and (3) the Sinking Account Installments required to be made in such year to pay or redeem Outstanding Term Bonds. The term "Maximum Annual Debt Service" means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds.

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

"1997 Bond Insurance Policy" means the municipal bond insurance policy issued by the Series 1997 Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 1997 Bonds when due.

"2005 Bond Insurance Policy" means the financial guaranty insurance policy issued by the Series 2005 Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 2005 Bonds when due.

"1997 Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

"2005 Bond Insurer" means Ambac Assurance Corporation, a Wisconsin stock insurance company, or any successor thereto or assignee thereof.

"Bond Year" means (1) with respect to the initial Bond Year, the period from the date the Series 1997 Bonds are originally delivered to and including the first succeeding August 1, and (2)

thereafter, each twelve-month period from August 2 in any calendar year to and including July 31 in the following calendar year.

“Bondholder” or “Owner” whenever employed in the Indenture means the person in whose name such Bond shall be registered.

“Bonds” means the Series 1997 Bonds, the Series 2005 Bonds and all Additional Bonds.

“Business Day” means a day of the year on which banks in New York, New York, San Francisco, California, and any other place in which the Corporate Trust Office of the Trustee is located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

“City” means the City of Folsom, California, or any successor entity.

“Code” means the Internal Revenue Code of 1986, as amended and any regulations of the United States Department of the Treasury issued thereunder.

“Consultant’s Report” means a report signed by an Independent Financial Consultant or an Independent Redevelopment Consultant, as may be appropriate to the subject of the report, and including:

- (1) a statement that the person or firm making or giving such report has read the pertinent provisions of the Indenture to which such report relates;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the report is based;
- (3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said Independent Financial Consultant or Independent Redevelopment Consultant to express an informed opinion with respect to the subject matter referred to in the report.

“Continuing Disclosure Certificate,” when used in reference to any Series of Bonds, means the Continuing Disclosure Certificate executed by the Agency in connection with such Series of Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Corporate Trust Office” means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Agency, initially being such office located in San Francisco, California.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Agency or the City and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to publication and printing costs, costs of preparation and reproduction of documents, filing and recording fees, fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Depository” means the securities depository acting as Depository pursuant to the provisions of the Indenture.

“Events of Default” means any of the events specified in the Indenture.

“Federal Securities” means (a) United States Treasury notes, bonds, bills or certificates of indebtedness, or other evidences of indebtedness secured by the full faith and credit of the United States of America; (2) any securities authorized both the interest on and principal of which are guaranteed directly by the full faith and credit of the United States of America, as and to the extent that such securities are eligible for the legal investment of Agency funds; and (3) the interest portion of obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and stripped by the United States Government as federal securities.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or any other annual accounting period selected and designated by the Agency as its Fiscal Year in accordance with the Law and with notice to the Trustee.

“Indenture” means the Indenture of Trust, dated as of July 1, 1997, between the Agency and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Indentures executed pursuant to the provisions of the Indenture.

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the Agency, and who, or each of whom:

- (1) is in fact independent and not under the domination of the Agency;
- (2) does not have any substantial interest, direct or indirect, with the Agency; and
- (3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Agency.

“Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the Agency, and who, or each of whom:

- (1) is in fact independent and not under the domination of the Agency;
- (2) does not have any substantial interest, direct or indirect, with the Agency; and
- (3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to make annual or other reports to the Agency.

“Independent Redevelopment Consultant” means a consultant or firm of such consultants generally recognized to be well qualified in the field of consulting relating to tax allocation bond financing by California redevelopment agencies, appointed and paid by the Agency, and who, or each of whom:

- (1) is in fact independent and not under the domination of the Agency;
- (2) does not have any substantial interest, direct or indirect, with the Agency; and

(3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to make annual or other reports to the Agency.

“Interest Account” means the account maintained within the Special Fund pursuant to the Indenture.

“Interest Payment Date” means any February 1 or August 1 on which interest on any Series of Bonds is scheduled to be paid.

“Law” means the Community Redevelopment Law of the State of California (being Part 1 of Division 24 of the Health and Safety Code of the State of California, as amended), and all laws amendatory thereof or supplemental thereto.

“Moody’s” means Moody’s Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Agency.

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to Bonds held by the Agency or the City) all Bonds except --

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of the Indenture; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Agency pursuant to the Indenture.

“Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

“Permitted Investments” means any of the following to the extent permitted by the laws of the State of California:

- (1) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America;
- (2) Federal Housing Administration debentures;
- (3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies:
 - (A) Federal Home Loan Bank System
Consolidated debt obligations

- (B) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
- (C) Federal National Mortgage Association (FNMA or “Fannie Mae”) Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- (D) Student Loan Marketing Association (SLMA or “Sallie Mae”) Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or the call date)
- (E) Resolution Funding Corp. (REFCORP)
Debt obligations
- (F) Farm Credit System
Consolidated systemwide bonds and notes.
- (G) Financing Corporation (FICO)
Debt obligations;

(4) Money market funds, including funds of the Trustee or any affiliate, registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAm-G, AAm or better;

(5) Deposit accounts the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation in banks which have capital and surplus of at least five million dollars (\$5,000,000);

(6) Certificates of deposit, time deposits and banker’s acceptances (having maturities of not more than 30 days) of any bank, the short-term obligations of which are rated A-1 or better by S&P;

(7) Pre-refunded municipal obligations rated “AAA” by S&P and “Aaa” by Moody’s meeting the following requirements:

- (A) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
- (B) the municipal obligations are secured by cash or United States treasury obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
- (C) the principal of and interest on the United States treasury obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest and premium, if any, due and to become due on the municipal obligations (“Verification”);

- (D) the cash or United States treasury obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
- (E) no substitution of an United States treasury obligation shall be permitted except with another United States Treasury obligation and upon delivery of a new Verification; and
- (F) the cash or United States treasury obligation are not available to satisfy any other claims, including those by or against the trustee or escrow agent;

(8) Commercial paper (having original maturities of not more than 270 days) rated “Prime-1” by Moody’s and “A-1+” or better by S&P;

(9) (A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated “A” by S&P and “A3” by Moody’s, or better, or any obligation fully and unconditionally guaranteed by any stated, subdivision or agency whose unsecured general obligation debt is so rated; (B) direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above in this clause (9) and rated “A-1+” by S&P and “MIG-1” by Moody’s; and (C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above in this clause (9) and rated “AA” or better by S&P and “Aa” or better by Moody’s;

(10) Repurchase agreements with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by S&P and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by S&P and Moody’s and acceptable to the Insurer, provided that:

- (A) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach);
- (B) The Trustee or a third party acting solely as agent therefor or for the Issuer (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);
- (C) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

- (D) All other requirements of S&P in respect of repurchase agreements shall be met; and
- (E) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer or Trustee;

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

- (A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;
- (B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Agency and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- (C) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;
- (D) the Agency or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Agency and the Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Insurer;
- (E) the investment agreement shall provide that if during its term
 - (i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Agency, the Trustee or a third party acting solely as agent

therefor (the “Holder of the Collateral”) collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach); or (b) repay the principal amount of and accrued but unpaid interest on the investment; and

(ii) the provider’s rating by either S&P or Moody’s is withdrawn or suspended or falls below “A-” or “A3”, respectively, the provider must, at the direction of the Agency or the Trustees (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Agency or Trustee, and

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

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

(i) the provider shall default in its payment obligations, the provider’s obligations under the investment shall, at the direction of the Agency or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Agency or Trustee, as appropriate; and

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

(12) The California Asset Management Program; and

(13) Any other investment approved in writing by the Series 1997 Bond Insurer and the Series 2005 Bond Insurer.

“Principal Account” means the account maintained within the Special Fund pursuant to the Indenture.

“Principal Payment Date” means any August 1 on which principal of any Series of Bonds is scheduled to be paid.

“Project” means the undertaking of the Agency pursuant to the Redevelopment Plan and the Law for the redevelopment of the Project Area.

“Project Area” means the project area described in the Redevelopment Plan.

“Redevelopment Fund” means the fund by that name established under the Indenture.

“Redevelopment Plan” means the redevelopment plan for the Central Folsom Redevelopment Project Area of the Agency in Folsom, California, adopted and approved as the Redevelopment Plan for the Project by Ordinance No. 512, adopted by the City Council of the City of Folsom, California, on November 29, 1983, together with all further amendments thereto made in accordance with the Law and the Indenture.

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

“Reserve Account” means the account maintained within the Special Fund under the Indenture.

“Reserve Account Requirement” means, with respect to the Series 2005 Bonds, as of any date of calculation, the least of (i) Maximum Annual Debt Service for the Series 2005 Bonds, (ii) ten per cent (10%) of the principal amount of the Series 2005 Bonds, or (iii) 125% of average Annual Debt Service on the Series 2005 Bonds; provided, that from and after the first date on which no Series 1997 Bonds remain Outstanding, the term “Reserve Account Requirement” means, with respect to all then Outstanding Bonds, as of any date of calculation, the least of (i) Maximum Annual Debt Service for such Bonds, (ii) ten per cent (10%) of the principal amount of such Bonds, or (iii) 125% of average Annual Debt Service on such Bonds.

“S&P” means Standard and Poor’s Ratings Service and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally-recognized rating agency selected by the Agency.

“Serial Bonds” means Bonds for which no Sinking Account Installments are provided.

“Series” means and refers to all Bonds of like designation authenticated and delivered on original issuance at the same time pursuant to the Indenture and any Bonds thereafter delivered in lieu of or in substitution for any of such Bonds pursuant to the Indenture.

“Series 1997 Bonds” means the Redevelopment Agency of the City of Folsom, Central Folsom Redevelopment Project Refunding Tax Allocation Bonds, Series 1997.

“Series 2005 Bonds” means the Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Tax Allocation Bonds, Series 2005.

“Series 2005 Rebate Fund” means the fund by that name within the Rebate Fund established by the Indenture for the Series 2005 Bonds.

“Sinking Account Installment” means the amount of money required to be paid by the Agency on a Sinking Account Payment Date toward the retirement of any particular Term Bonds on or prior to their respective stated maturities, as set forth in the Indenture.

“Sinking Account Payment Date” means any August 1 on which Sinking Account Installments on Term Bonds are scheduled to be paid, as set forth in the Indenture.

“Special Bonds” means Bonds the proceeds of which are deposited into the Temporary Redemption Fund established under the Indenture or another escrow fund.

“Special Fund” means the fund established under the Indenture.

“Supplemental Indenture” means any indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized by the Indenture.

“Tax Certificate” means, with respect to any one or more series of Bonds, a Certificate or Certificates of the Agency concerning the calculation of any amount to be paid to the United States of America pursuant to Section 148(f) of the Code and any other matters relating to the exclusion of interest on such Bonds from gross income for federal income tax purposes.

“Tax Revenues” means, for each Fiscal Year, beginning in the Fiscal Year in which the Series 1997 Bonds are issued, the taxes eligible for allocation to the Agency pursuant to the Law (exclusive of (a) amounts, if any, not exceeding twenty percent (20%) of certain of such taxes which may be required by law to be set aside for certain housing purposes, (b) amounts, if any, received pursuant to Section 16111 of the Government Code, and (c) amounts payable pursuant to Sections 33607.5 and 33607.7 of the Health and Safety Code, except to the extent such payments are expressly subordinate to the payment of the principal of, premium, if any, and interest on Bonds), together with all payments, reimbursements and subventions, if any, specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, in an amount equal to Annual Debt Service for the corresponding Bond Year, which amount, upon an insufficiency in any Bond Year in the Special Fund of the Agency or any of the accounts established therein, shall be increased up to an amount sufficient to replenish said funds and accounts.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Account Installments established for that purpose.

“Trustee” means Union Bank of California, N.A., appointed by the Agency under the Indenture with the duties and powers therein provided, and its successors and assigns, or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

Conditions for the Issuance of Additional Bonds

The Agency may at any time issue a Series of Additional Bonds payable from the Tax Revenues and secured by a lien and charge upon the Tax Revenues equal to and on a parity with the lien and charge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(a) A Certificate of the Agency shall have been filed with the Trustee to the effect that the Agency shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indentures, and no event of default shall have occurred and be continuing.

(b) The issuance of such Additional Bonds shall have been duly authorized pursuant to the Law and all applicable laws, and the issuance of such Additional Bonds shall have been provided for by a Supplemental Indenture which shall specify, among other things, the following:

(1) The purpose for which such Additional Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Additional Bonds to be applied solely for (i) the purpose of aiding in financing and refinancing the Project, including payment of all costs incidental to or connected with such financing, and/or (ii) the purpose of refunding any Bonds, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount of such Additional Bonds;

(3) The date and the maturity date or dates of such Additional Bonds;

(4) The Interest Payment Dates for such Additional Bonds; provided that Interest Payment Dates shall be on the same semiannual dates as the Interest Payment Dates for Series 1997 Bonds;

(5) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds; and

(6) The amount, if any, to be deposited from the proceeds of such Additional Bonds in the Reserve Account; provided that the amount deposited in or credited to such Reserve Account shall be increased at or prior to the time such Additional Bonds become Outstanding to an amount at least equal to the Reserve Account Requirement on all Outstanding Bonds after the issuance of such Additional Bonds, and that an amount at least equal to the Reserve Account Requirement on all Outstanding Bonds shall thereafter be maintained in or credited to such Reserve Account.

(c) The Tax Revenues received by the Agency in the then current Fiscal Year or in the immediately preceding Fiscal Year shall be in an amount equal to at least one hundred twenty-five percent (125%) of Maximum Annual Debt Service on all Outstanding Bonds after the issuance of such Additional Bonds and any unsubordinated loans, advances, indebtedness or other obligations payable from Tax Revenues pursuant to the Law.

(d) A Certificate of the Agency shall have been filed with the Trustee, the 1997 Bond Insurer and the 2005 Bond Insurer to the effect that the payment of the debt service with respect to the Additional Bonds will not cause the Agency to exceed its then-effective cumulative tax increment limitation under the Redevelopment Plan.

For the purpose of the issuance of Additional Bonds, the Tax Revenues referred to above shall be increased by amounts, not exceeding 20% of the taxes eligible for allocation to the Agency pursuant to the Law, which may be otherwise required by the Law to be set aside for certain housing purposes, if, and only to the extent that, the Agency delivers to the Trustee an opinion of counsel experienced in redevelopment law to the effect that such amounts may be lawfully made available as Tax Revenues and the Agency makes such amounts available as Tax Revenues from the date of delivery to the final maturity of such Additional Bonds.

For the purposes of the calculation of the coverage requirements set forth in the Indenture with respect to the issuance of Additional Bonds, Outstanding Bonds and Additional Bonds shall not

include any Special Bonds the proceeds of which are deposited into an escrow fund held by the Trustee, provided that the Supplemental Indenture authorizing the issuance of such Additional Bonds shall provide that:

(1) Such proceeds shall be deposited or invested in Federal Securities or in an Investment Agreement with a financial institution or insurance company whose unsecured debt obligations are rated Aa or better by Moody's or S&P, at a rate of interest which, together with amounts made available by the Agency from Bond proceeds or otherwise, is at least sufficient to pay Annual Debt Service on the Special Bonds the proceeds of which are to be deposited in the escrow fund held by the Trustee;

(2) Moneys may be transferred from said escrow fund only if Tax Revenues for the then current Fiscal Year will be at least equal to one hundred twenty-five percent (125%) of Maximum Annual Debt Service on all Outstanding Bonds and such Additional Bonds and any unsubordinated loans, indebtedness or other obligations payable from Tax Revenues pursuant to the Law (exclusive of disqualified Bonds described in the Indenture), less a principal amount of Special Bonds which is equal to moneys on deposit in said escrow fund after each such transfer; and

(3) The Special Bonds shall be redeemed from moneys remaining on deposit in said escrow fund at the expiration of a specified escrow period in such manner as may be determined by the Agency.

In the event Additional Bonds are to be issued solely for the purpose of refunding and retiring any Outstanding Bonds, interest and principal payments on the Outstanding Bonds to be so refunded and retired from the proceeds of such Additional Bonds being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service. Nothing contained in the Indenture shall limit the issuance of any tax allocation bonds of the Agency secured by a lien and charge on Tax Revenues junior to that of the Bonds.

Pledge of Tax Revenues; Special Fund

All the Tax Revenues and all money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture (except the Rebate Fund) are irrevocably pledged to the punctual payment of the interest on and principal of and redemption premium, if any, on the Bonds, and the Tax Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions of the Indenture permitting application thereof for the purposes and in accordance with the terms and conditions set forth therein. This pledge shall constitute a first lien on the Tax Revenues and such other money for the payment of the Bonds in accordance with the terms thereof. All the Tax Revenues, together with any interest earned thereon, shall, so long as any Bonds shall be Outstanding under the Indenture, be deposited when and as received by the Agency in the "Redevelopment Agency of the City of Folsom, Central Folsom Redevelopment Project Special Fund" (hereinafter called the "Special Fund"), which is created by the Agency and which fund the Agency covenants and agrees to maintain with the Trustee so long as any Bonds shall be Outstanding under the Indenture. Notwithstanding the foregoing, there need not be deposited with the Trustee in the Special Fund any Tax Revenues in an amount in excess of that amount which, together with all money then on deposit with the Trustee in the Special Fund and the accounts therein, shall be sufficient to discharge all Outstanding Bonds as provided in the Indenture.

Receipt and Deposit of Tax Revenues

The Agency covenants and agrees that all Tax Revenues, when and as received, will be received by the Agency in trust under the Indenture and will be immediately deposited by the Agency with the Trustee in the Special Fund and will be accounted for through and held in trust in the Special Fund, and the Agency shall have no beneficial right or interest in any of such money, except as provided in the Indenture. All such Tax Revenues, whether received by the Agency in trust or deposited with the Trustee, all as provided in the Indenture, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Agency.

Purchase of Term Bonds

Purchases of Outstanding Term Bonds may be made by the Trustee from moneys in the Surplus Account, upon the Written Request of the Agency, at public or private sale as and when and at such prices as the Agency may in its discretion determine; provided that, unless otherwise authorized by the Law, such prices (including brokerage or other expenses) shall not exceed the greater of (i) the principal amount thereof plus accrued interest or (ii) the price at which the Bonds may then be called for redemption. Any accrued interest payable upon the purchase of Bonds may be paid from amounts held in the Special Fund for the payment of interest on the next following Interest Payment Date. Any Bonds so purchased shall be cancelled by the Trustee forthwith and shall not be reissued. The amount of any Term Bonds so purchased by the Trustee in any twelve-month period ending 60 days prior to any Sinking Account Payment Date in any year shall be credited towards and shall reduce the amount of Mandatory Sinking Account Payment with respect to such Term Bonds required to be redeemed on such Sinking Account Payment Date in such year.

Investment of Moneys in Funds and Accounts

Moneys in the Interest Account, the Principal Account, the Term Bonds Sinking Account, Reserve Account and the Surplus Account in the Special Fund, upon the Written Request of the Agency, shall be invested by the Trustee in Permitted Investments. The obligations in which moneys in the Special Fund, the Interest Account, the Principal Account, the Term Bond Sinking Account or the Surplus Account are so invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture; provided that, the Permitted Investments in which moneys in the Reserve Account are invested shall have an average aggregate weighted term to maturity not greater than five years. Moneys in the Redevelopment Fund may be invested by the Agency in any investments permitted by law. Any interest, income or profits from the deposits or investments of the Redevelopment Fund shall remain in the Redevelopment Fund. Any interest, income or profits from the deposits or investments of all funds and accounts held by the Trustee (other than the Rebate Fund and the Redevelopment Fund) shall be deposited in the Special Fund; provided that, any interest, income or profit from deposits or investments in the Reserve Account shall be retained therein unless the amount therein is equal to at least the Reserve Account Requirement.

Punctual Payment

The Agency will punctually pay the interest on and principal of and redemption premium, if any, to become due with respect to the Bonds in strict conformity with the terms of the Bonds and of the Indenture and will faithfully satisfy, observe and perform all conditions, covenants and requirements of the Bonds and of the Indenture.

Against Encumbrances

The Agency will not mortgage or otherwise encumber, pledge or place any charge upon any of the Tax Revenues, except as provided in the Indenture, and will not issue any obligation or security superior to or on a parity with the Bonds payable in whole or in part from the Tax Revenues.

Extension or Funding of Claims for Interest

In order to prevent any claims for interest after maturity, the Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any Bonds and will not, directly or indirectly, be a party to or approve any such arrangements by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Agency, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Management and Operation of Properties

The Agency will manage and operate all properties owned by the Agency and comprising any part of the Project in a sound and business-like manner and in conformity with all valid requirements of any governmental authority relative to the Project or any part thereof, and will keep such properties insured at all times in conformity with sound business practice.

Payment of Claims

The Agency will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Tax Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds; provided that nothing contained in the Indenture shall require the Agency to make any such payments so long as the Agency in good faith shall contest the validity of any such claims.

Books and Accounts; Financial and Project Statements

The Agency will keep proper books of record and accounts, separate from all other records and accounts of the Agency, in which complete and correct entries shall be made of all transactions relating to the Project and the Special Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than ten per cent (10%) of the aggregate amount of Bonds or their representatives authorized in writing.

The Agency will prepare and file with the Trustee annually as soon as practicable, but in any event not later than one hundred eighty (180) days after the close of each Fiscal Year, so long as any Bonds are Outstanding, an audited financial statement of the Agency for the preceding Fiscal Year prepared by an Independent Certified Public Accountant, which audited financial statement shall include a statement as to the manner and extent to which the Agency has complied with the provisions of the Indenture as it relates to the funds and accounts established pursuant to the Indenture. The Agency will furnish a copy of such audited financial statement and such summary statement to any Owner upon request.

Protection of Security and Rights of Owners

The Agency will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Bonds by the Agency, such Bonds shall be incontestable by the Agency.

Payment of Taxes and Other Charges

Subject to the provisions of the Indenture, the Agency will pay and discharge all taxes, service charges, assessments and other governmental charges which may be lawfully imposed upon the Agency or any properties owned by the Agency in the Project Area, or upon the revenues therefrom, when the same shall become due; provided that nothing contained in the Indenture shall require the Agency to make any such payments so long as the Agency in good faith shall contest the validity of any such taxes, service charges, assessments or other governmental charges.

Financing the Project

The Agency will commence the financing of the Project to be aided with the proceeds of the Bonds with all practicable dispatch, and such financing will be accomplished and completed in a sound, economical and expeditious manner and in conformity with the Redevelopment Plan and the Law so as to complete the Project as soon as possible.

Taxation of Leased Property

Whenever any property in the Project is redeveloped by the Agency and thereafter is leased by the Agency to any person or persons, or whenever the Agency leases any real property in the Project to any person or persons for redevelopment, the property shall be assessed and taxed in the same manner as privately-owned property (in accordance with the Law), and the lease or contract shall provide (1) that the lessee shall pay taxes upon the assessed value of the entire property and not merely upon the assessed value of the leasehold interest, and (2) that if for any reason the taxes paid by the lessee on such property in any year during the term of the lease shall be less than the taxes that would have been payable upon the entire property if the property were assessed and taxed in the same manner as privately-owned property, the lessee shall pay such difference to the Agency within thirty (30) days after the taxes for such year become payable, and in any event prior to the delinquency date of such taxes established by law.

Disposition of Property in Project Area

The Agency will not, except as otherwise provided in the provisions of the Indenture described in this section, authorize the disposition of any real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except for public ownership or use contemplated by the Redevelopment Plan in effect on the date of adoption of the Indenture, or property to be used for public streets or public off-street parking facilities or easements or rights of way for public utilities, or other similar uses) if such dispositions, together with all similar prior dispositions on or subsequent to the effective date of the Indenture, shall comprise more than ten per cent (10%) of the land area in the Project Area. If the Agency proposes to make any such disposition which, together with all similar dispositions on or subsequent to the effective date of the Indenture, shall comprise more than ten per cent (10%) of the land area in the Project Area, it shall cause to be filed with the Trustee a Consultant's Report on the effect of such proposed disposition. If the Consultant's Report concludes that the Tax Revenues will not be materially reduced by such proposed disposition, the Agency may proceed with such proposed disposition. If the Consultant's Report concludes that Tax Revenues will be materially reduced by such proposed disposition, the Agency

shall as a condition precedent to proceeding with such proposed disposition, require that such new owner or owners either:

(1) Pay to the Trustee, so long as any of the Bonds are Outstanding, an amount equal to the amount that would have been received by the Agency as Tax Revenues if such property were assessed and taxed in the same manner as privately-owned non-exempt property, which payment shall be made within thirty (30) days after taxes for each year would become payable to the taxing agencies for non-exempt property and in any event prior to the delinquency date of such taxes established by law; or

(2) Pay to the Trustee a single sum equal to the amount estimated by an Independent Redevelopment Consultant to be receivable from taxes on such property from the date of such payment to the last maturity date of all Outstanding Bonds, less a reasonable discount value.

All such payments to the Trustee in lieu of taxes shall be treated as Tax Revenues and shall be deposited by the Trustee in the Special Fund and used solely for the purposes of paying debt service on the Bonds.

Amendment of Redevelopment Plan

If the Agency proposes to amend the Redevelopment Plan, it shall cause to be filed with the Trustee a Consultant's Report on the effect of such proposed amendment. If the Consultant's Report concludes that Tax Revenues will not be materially reduced by such proposed amendment, the Agency may undertake such amendment. If the Consultant's Report concludes that Tax Revenues will be materially reduced by such proposed amendment, the Agency may not undertake such proposed amendment.

Tax Revenues

The Agency shall comply with all requirements of the Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of Sacramento County, and shall forward information copies of each such filing to the Trustee.

The Agency expressly finds and determines that the pledge, payment and setting aside of Tax Revenues as provided for in the Resolution is not subject to any limitation contained in Article XIII B of the Constitution of the State of California.

Continuing Disclosure

The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default, provided that any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations described in this paragraph. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Further Assurances

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

Tax Covenants

The Agency covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on any of the Bonds under Section 103 of the Code. The Agency will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Agency, or take or omit to take any action, that would cause any of the Bonds to be “private activity bonds” or “private loan bonds” within the meaning of Section 141 of the Code, or “arbitrage bonds” within the meaning of Section 148(a) of the Code, or to be “federally guaranteed” within the meaning of Section 149(b) of the Code. To that end, the Agency will comply with all requirements of Section 148 of the Code to the extent applicable to any of the Bonds. Without limiting the generality of the foregoing, the Agency agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. In the event that at any time the Agency is of the opinion that for purposes of the provisions described in this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Agency shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Series 2005 Rebate Fund

The Agency shall establish and maintain a fund to be held by the Trustee separate from any other fund established and maintained under the Indenture designated the Series 2005 Rebate Fund. Subject to the tax certificate dated the date of and prepared in connection with the issuance of the Series 2005 Bonds, as such Tax Certificate may be amended and supplemented from time to time, moneys held in the Series 2005 Rebate Fund are pledged to secure payments to the United States of America required by the Tax Certificate, and the Agency or the Owners shall have no rights in or claim to such moneys. The Agency specifically covenants that the Agency will comply with such Tax Certificate and will pay or cause to be paid to the United States of America the rebate amounts as such term is used in such Tax Certificate at the times and in the amounts determined therein. The Trustee is instructed by the Indenture to comply with any instructions from the Agency to the Trustee pursuant to such Tax Certificate. The Trustee’s sole responsibility under the provisions of the Indenture regarding the Series 2005 Rebate Fund is to follow the Written Requests of the Agency pertaining to the Indenture and the Tax Certificate, and the Trustee shall be deemed conclusively to have complied with the terms of the Indenture if it follows such Written Requests.

Annual Review of Tax Revenues

The Agency covenants that as set forth below it will review the total amount of tax increment revenues remaining available to be received by the Agency under the Redevelopment Plan’s then-effective cumulative tax increment limitation and estimated future fees of the Trustee. If the allocation of tax increment revenues to the Agency in any year will cause the amount remaining under the tax increment limit to fall below remaining cumulative Annual Debt Service, all other debt service payments on bonds and other obligations of the Agency secured by tax increment allocable to the Agency pursuant to Section 33670 of the Law, and estimated future fees of the Trustee, the Agency shall deposit

in the year of such determination an amount of such tax increment revenues equal to the amount by which cumulative Annual Debt Service exceeds such limit in a special escrow established with the Trustee and pledged solely for the payment of interest on and principal of and redemption premium, if any, on the Bonds. The funds in such escrow shall be invested in Permitted Investments which shall have a term of maturity not greater than one year.

Within 150 days after the end of each Fiscal Year, and then only if the Agency shall have received 65% of the amount of taxes eligible for allocation to it pursuant to Section 33670 of the Law, the Agency shall transmit to the 1997 Bond Insurer and 2005 Bond Insurer a statement setting forth the amount of all taxes eligible for allocation to the Agency, pursuant to Section 33670 of the Law under the then-effective tax increment limitation, through the date of such calculation, plus the total amount of debt service remaining on Bonds, expressed as a percentage of amount of tax increment receivable by the Agency under the Redevelopment Plan.

Amendment of the Indenture With Consent of Owners

The Indenture and the rights and obligations of the Agency and of the Owners may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of sixty per cent (60%) in aggregate amount of Bonds, exclusive of Bonds disqualified as provided in the Indenture are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the Agency to pay the interest or principal or redemption premium, if any, at the time and place and at the rate and in the currency provided therein of any Bond, without the express written consent of the Owner of such Bond, or (2) permit the creation by the Agency of any mortgage, pledge or lien upon the Tax Revenues superior to or on a parity with the pledge and lien created in the Indenture for the benefit of the Bonds, without the express written consent of the Owner of such Bond, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, without the express written consent of the Owner of such Bond, or (4) modify the rights or obligations of the Trustee without its prior written assent thereto.

Amendment of the Indenture Without Consent of Owners

The Indenture and the rights and obligations of the Agency and of the Owners may also be amended at any time by a Supplemental Indenture which shall become binding upon adoption, without the consent of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

- (a) To add to the covenants and agreements of the Agency in the Indenture contained, other covenants and agreements thereafter to be observed, or to surrender any right or power therein reserved to or conferred upon the Agency;
- (b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in regard to questions arising under the Indenture, as the Agency may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Owners of the Bonds;
- (c) To provide for the issuance of any Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(d) To modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(e) To maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes; or

(f) To obtain a bond insurance policy or a rating on the Bonds, or in connection with obtaining a policy of insurance, surety bond, letter of credit or other comparable credit facility to satisfy all or a portion of the Reserve Account Requirement.

Events of Default and Acceleration of Maturities

If one or more of the following events (herein called "Events of Default") shall happen, that is to say:

(a) If default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) If default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(c) If default shall be made by the Agency in the observance of any of the other agreements, conditions or covenants on its part in the Indenture or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after the Agency shall have been given notice in writing of such default by the Trustee; provided that such default shall not constitute an Event of Default under the Indenture if the Agency shall commence to cure such default within said 30-day period and thereafter diligently and in good faith proceed to cure such default within a reasonable period of time; provided further that, any cure period shall not extend for more than 60 days without the prior written consent of the 1997 Bond Insurer and the 2005 Bond Insurer;

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

then, and in each and every such case during the continuance of such event of default, but subject to the rights of the 1997 Bond Insurer and the 2005 Bond Insurer as set forth in the Indenture, the Trustee may, and upon the written request of the Owners of not less than twenty-five per cent (25%) in aggregate amount of Bonds Outstanding shall, by notice in writing to the Agency, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

If, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least twenty-five per cent (25%) in aggregate amount of Bonds Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. No such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration

All money in the funds and accounts provided for in the Indenture upon the date of the declaration of acceleration by the Trustee as described under the caption "Events of Default and Acceleration of Maturities," and all Tax Revenues thereafter received by the Agency, shall be transmitted to the Trustee and shall be applied by the Trustee in the following order:

First, to the payment of the costs and expenses of the Trustee in providing for the declaration of such event of default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the default and remedies provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel;

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal, and interest on overdue interest and principal without preference or priority among such interest, principal, and interest on overdue interest and principal, ratably to the aggregate of such interest, principal, and interest on overdue interest and principal.

Trustee to Represent Bondholders

The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and owning the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Owners of the Bonds, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five per cent (25%) in aggregate amount of Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Law or any other law; provided, however, that in acting at its own discretion with respect to the Series 1997 Bonds, any such action of the

Trustee shall be subject to the provisions of the Indenture described under the captions “Certain Rights of the 1997 Bond Insurer” and “Certain Rights of the 2005 Bond Insurer.” All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondholder’s Direction of Proceedings

Subject to the provisions of the Indenture described under the caption “Certain Rights of the 1997 Bond Insurer” and “Certain Rights of the 2005 Bond Insurer,” the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders Right to Sue

No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Law or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five per cent (25%) in aggregate amount of Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted by the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee, provided that nothing contained in the Indenture shall affect or impair the right of action of any Owner to institute suit directly against the Agency to enforce payment on such Bond.

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

Non-Waiver

Nothing in the provisions of the Indenture relating to events of default and remedies of owners or in any other provision of the Indenture, or in the Bonds, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Tax Revenues pledged for such payment, or affect or impair the right of action, which is also absolute

and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture.

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

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the Trustee, the Agency and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Discharge of Indebtedness

If the Agency shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds the interest due thereon and the principal thereof, at the times and in the manner stipulated therein and in the Indenture, then the Owners of such Bonds shall cease to be entitled to the pledge of Tax Revenues, and all covenants, agreements and other obligations of the Agency to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied; provided, however, that the Indenture shall not be discharged unless all payments due or to become due to the 1997 Bond Insurer and 2005 Bond Insurer shall have been paid in full or provision made therefor. In such event, the Trustee shall execute and deliver to the Agency all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Agency all money or securities held by them pursuant to the Indenture which are not required for the payment of the interest due on and the principal of such Bonds, other than the moneys, if any, in the Rebate Fund.

Bonds for the payment of which money shall have been set aside (through deposit by the Agency or otherwise) to be held in trust by the Trustee for such payment at the maturity or redemption date thereof shall be deemed, as of the date of such setting aside, to have been paid within the meaning and with the effect expressed in the first paragraph of this section.

Subject to provisions in the Indenture regarding the rights of the 1997 Bond Insurer and 2005 Bond Insurer, any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph of this section if (1) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Federal Securities the principal of and the interest on which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the interest due and to become due on such Bonds on and prior to the maturity or redemption date thereof, the principal of such Bonds, and the premium, if any, due on such Bonds, as

verified by an independent nationally recognized certified public accountant, and (2) the Agency shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (1) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the provisions described in this section and stating the maturity or redemption date upon which money is to be available for the payment of the principal of such Bonds. With respect to Bonds which are to be redeemed, the Agency shall direct the Trustee to mail a notice of redemption as provided in the Indenture.

Neither Federal Securities nor money deposited with the Trustee pursuant to the provisions described in this section of the Indenture nor interest or principal payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the interest on and principal of such Bonds, provided, any cash received from such interest or principal payments on such Federal Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Federal Securities maturing at times and in amounts sufficient to pay when due the interest on and principal of such Bonds on and prior to such maturity or redemption date thereof, and interest earned from such reinvestments shall be deposited in the Special Fund. For the purposes of the provisions described in this section, Federal Securities shall mean and include only such securities as are not subject to redemption prior to their maturity.

Certain Rights of the 1997 Bond Insurer

As long as the 1997 Bond Insurance Policy shall be in full force and effect and the 1997 Bond Insurer is not in default under the 1997 Bond Insurance Policy, the Agency and the Trustee agree as follows:

(a) Article XI of the Indenture (relating to the 1997 Bond Insurer, payments under the 1997 Bond Insurance Policy and certain rights of the 1997 Bond Insurer) may not be amended without the prior written consent of the 1997 Bond Insurer. Any other provision of the Indenture shall not be amended, modified or supplemented by the Agency in any manner without the prior written consent of the 1997 Bond Insurer; provided, however, that nothing described in this paragraph or otherwise in Article XI shall be construed as requiring the consent of the 1997 Bond Insurer for the issuance of Additional Bonds.

(b) The 1997 Bond Insurer shall be deemed to be the sole holder of the Series 1997 Bonds for the purpose of exercising any voting right or privilege, giving any consent or direction or taking any other action that the Owners of the Series 1997 Bonds insured by it are entitled to take pursuant to the Indenture, and the 1997 Bond Insurer shall have the sole right to control all remedies for default with respect to the Series 1997 Bonds, including acceleration of the Series 1997 Bonds.

(c) Upon the occurrence and continuance of an Event of Default, the 1997 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Series 1997 Bonds or to the Trustee for the benefit of the Owners of the Series 1997 Bonds as if the 1997 Bond Insurer were the Owner of such Series 1997 Bonds.

(d) Notwithstanding any other provision of the Indenture, if the principal of or interest due on the Series 1997 Bonds shall be paid by the 1997 Bond Insurer pursuant to the 1997 Bond Insurance Policy, the Series 1997 Bonds shall remain Outstanding for all purposes and not be considered paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Agency in accordance with the Indenture, and the 1997 Bond Insurer shall be subrogated to the rights of such Owners.

(e) To the extent the Indenture confers upon or gives or grants to the 1997 Bond Insurer any right, remedy or claim under or by reason of the Indenture with respect to the Series 1997 Bonds, the 1997 Bond Insurer is explicitly recognized as a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

(f) The 1997 Bond Insurer shall be entitled to pay principal or interest on the Series 1997 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Agency (as such terms are defined in the 1997 Bond Insurance Policy) and any amounts due on the Series 1997 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the 1997 Bond Insurer has received a Notice (as defined in the 1997 Bond Insurance Policy) of Nonpayment or a claim upon the 1997 Bond Insurance Policy.

(g) The Agency shall not appoint any successor Trustee without the prior written consent of the 1997 Bond Insurer.

(h) The 1997 Bond Insurer shall have the right to remove the Trustee.

(i) In the event the Series 1997 Bonds are defeased pursuant to the Indenture, certain conditions shall be satisfied, including the following:

- (1) Only the following may be used to effect the defeasance of the Series 1997 Bonds: (A) cash, (B) non-callable direct obligations of the United States of America ("Treasuries"), (C) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian or to whom the custodian may be obligated, (D) pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's, or any combination thereof, or (E) such other instruments as may be approved by the 1997 Bond Insurer. Solely for purposes of the defeasance of any Series 1997 Bonds, the term "Federal Securities," as used in the provisions of the Indenture described in this Appendix under the caption "Discharge of Indebtedness," shall mean (A) through (D) above in this paragraph.
- (2) The 1997 Bond Insurer shall receive a report, in form and substance acceptable to the 1997 Bond Insurer, of a nationally recognized independent firm of certified public accountants or other accountant acceptable to the 1997 Bond Insurer verifying the sufficiency of the escrow established to pay the Series 1997 Bonds in full upon maturity or redemption thereof.

Certain Rights of the 2005 Bond Insurer

As long as the 2005 Bond Insurance Policy shall be in full force and effect and the 2005 Bond Insurer is not in default under the 2005 Bond Insurance Policy, the Agency and the Trustee agree as follows:

(a) Article XI of the Indenture (relating to the 2005 Bond Insurer, payments under the 2005 Bond Insurance Policy and certain rights of the 2005 Bond Insurer) may not be amended without the prior written consent of the 2005 Bond Insurer. Any other provision of the Indenture shall not be amended, modified or supplemented by the Agency in any manner without the prior written consent of the 2005 Bond Insurer; provided, however, that nothing described in this paragraph or otherwise in Article XI shall be construed as requiring the consent of the 2005 Bond Insurer for the issuance of Additional Bonds.

(b) The 2005 Bond Insurer shall be deemed to be the sole holder of the Series 2005 Bonds for the purpose of exercising any voting right or privilege, giving any consent or direction or taking any other action that the Owners of the Series 2005 Bonds insured by it are entitled to take pursuant to the Indenture, and the 2005 Bond Insurer shall have the sole right to control all remedies for default with respect to the Series 2005 Bonds, including acceleration of the Series 2005 Bonds.

(c) Upon the occurrence and continuance of an Event of Default, the 2005 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Series 2005 Bonds or to the Trustee for the benefit of the Owners of the Series 2005 Bonds as if the 2005 Bond Insurer were the Owner of such Series 2005 Bonds.

(d) Notwithstanding any other provision of the Indenture, if the principal of or interest due on the Series 2005 Bonds shall be paid by the 2005 Bond Insurer pursuant to the 2005 Bond Insurance Policy, the Series 2005 Bonds shall remain Outstanding for all purposes and not be considered paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Agency in accordance with the Indenture, and the 2005 Bond Insurer shall be subrogated to the rights of such Owners.

(e) To the extent the Indenture confers upon or gives or grants to the 2005 Bond Insurer any right, remedy or claim under or by reason of the Indenture with respect to the Series 2005 Bonds, the 2005 Bond Insurer is explicitly recognized as a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

(f) The 2005 Bond Insurer shall be entitled to pay principal or interest on the Series 2005 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Agency (as such terms are defined in the 2005 Bond Insurance Policy) and any amounts due on the Series 2005 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the 2005 Bond Insurer has received a Notice (as defined in the 2005 Bond Insurance Policy) of Nonpayment or a claim upon the 2005 Bond Insurance Policy.

(g) The Agency shall not appoint any successor Trustee without the prior written consent of the 2005 Bond Insurer.

(h) The 2005 Bond Insurer shall have the right to remove the Trustee.

(i) In the event the Series 2005 Bonds are defeased pursuant to the Indenture, certain conditions shall be satisfied, including the following:

- (1) Only the following may be used to effect the defeasance of the Series 2005 Bonds: (A) cash, (B) non-callable direct obligations of the United States of America ("Treasuries"), (C) evidences of ownership of

proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian or to whom the custodian may be obligated, (D) pre-refunded municipal obligations rated “AAA” by S&P and “Aaa” by Moody’s, or any combination thereof, or (E) such other instruments as may be approved by the 2005 Bond Insurer. Solely for purposes of the defeasance of any Series 2005 Bonds, the term “Federal Securities,” as used in the provisions of the Indenture described in this Appendix under the caption “Discharge of Indebtedness,” shall mean (A) through (D) above in this paragraph.

- (2) The 2005 Bond Insurer shall receive a report, in form and substance acceptable to the 2005 Bond Insurer, of a nationally recognized independent firm of certified public accountants or other accountant acceptable to the 2005 Bond Insurer verifying the sufficiency of the escrow established to pay the Series 2005 Bonds in full upon maturity or redemption thereof.

Certain Amendments to Indenture

Simultaneously with the issuance and delivery of the Series 2005 Bonds, the Indenture is amended as follows, provided that such amendments will not affect the rights of Bondholders until the first date on which no Series 1997 Bonds remain Outstanding.

Amendment of Definition of “Federal Securities”

The following definition of “Federal Securities” (relating to securities acceptable for the defeasance of the Series 2005 Bonds) is added to the Original Indenture.

“Federal Securities” means, with respect to securities acceptable for the defeasance of the Series 2005 Bonds:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation);
- (2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
 - U.S. treasury obligations
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA)
 - State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt

(excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

Amendment of Definition of "Permitted Investments"

The following definition of "Permitted Investments" is added to the Original Indenture.

"Permitted Investments" means, with respect to the investment of proceeds of the Series 2005 Bonds (and with respect to all investments under the Indenture from and after the date on which no Series 1997 Bonds remain Outstanding), any of the following to the extent permitted by the laws of the State:

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

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

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

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other U.S. Government Sponsored Agencies approved by Ambac Assurance;

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

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

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or an affiliate of the Trustee provides investment advice or other services;

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

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

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

(7) Municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;

(8) Investment agreements approved in writing by Ambac Assurance (supported by appropriate opinions of counsel);

(9) Shares in the California Asset Management Program (established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State) that invests exclusively in investments permitted by Section 53635 of the Government Code of the State, as now existing and as it may be amended from time to time; and

(10) Other forms of investments (including repurchase agreements) approved in writing by Ambac Assurance.

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

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

(ii) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest; and

(iii) As to any investment not specified above: the value thereof established by prior agreement among the Agency, the Trustee and Ambac Assurance.

Amendment of Definition of "Reserve Account Requirement"

For so long as any Series 1997 Bonds remain Outstanding, the term "Reserve Account Requirement" means, with respect to the Series 2005 Bonds, as of any date of calculation, the least of (i) Maximum Annual Debt Service on the Series 2005 Bonds, (ii) ten per cent (10%) of the principal amount of the Series 2005 Bonds, or (iii) 125% of average Annual Debt Service on the Series 2005 Bonds; provided, that from and after the first date on which no Series 1997 Bonds remain Outstanding, the term "Reserve Account Requirement" means, with respect to all then Outstanding Bonds, as of any date of calculation, the least of (i) Maximum Annual Debt Service on such Bonds, (ii) ten per cent (10%) of the principal amount of such Bonds, or (iii) 125% of average Annual Debt Service on such Bonds.

Pledge of Tax Revenues; Special Fund

For so long as any Series 1997 Bonds remain Outstanding, the provisions described in this Appendix under the caption "Pledge of Tax Revenues; Special Fund" shall apply. Thereafter, the following shall apply:

All the Tax Revenues and all money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture (except the Rebate Fund) are irrevocably pledged to the punctual payment of the interest on and principal of and redemption premium, if any, on the Bonds, and the Tax Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions of the Indenture permitting application thereof for the purposes and in accordance with the terms and conditions set forth therein. Such pledge shall constitute a first lien on the Tax Revenues and such other money for the payment of the Bonds in accordance with the terms thereof. All the Tax Revenues, together with any interest earned thereon, shall, so long as any Bonds shall be Outstanding under the Indenture, be deposited when and as received by the Agency in the "Redevelopment Agency of the City of Folsom, Central Folsom Redevelopment Project Special Fund" (hereinafter called the "Special Fund"), which is created by the Indenture by the Agency and which fund the Agency covenants and agrees to maintain so long as any Bonds shall be Outstanding under the Indenture. Notwithstanding the foregoing, there shall not be deposited in the Special Fund any Tax Revenues in an amount in excess of that amount which, together with all money then on deposit in the Special Fund and the accounts therein, shall be sufficient to discharge all Outstanding Bonds as provided in the Indenture.

Receipt and Deposit of Tax Revenues

For so long as any Series 1997 Bonds remain Outstanding, the provisions described in this Appendix under the caption "Receipt and Deposit of Tax Revenues" shall apply. Thereafter, the following shall apply:

The Agency covenants and agrees that all Tax Revenues, when and as received, will be received by the Agency in trust and will be immediately deposited by the Agency in the Special Fund and will be accounted for through and held in trust in the Special Fund, and the Agency shall have no beneficial right or interest in any of such money, except only as in the Indenture provided. All such Tax Revenues, whether received by the Agency in trust or transferred to and held by the Trustee in any account of the Special Fund, all as provided in the Indenture, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Agency.

Establishment and Maintenance of Accounts for Use of Money in the Special Fund

For so long as any Series 1997 Bonds remain Outstanding, the provisions described in this Appendix under the caption "Establishment and Maintenance of Accounts for Use of Money in the Special Fund" shall apply. Thereafter, the following shall apply:

The Agency shall transfer to the Trustee all or such portion of the Tax Revenues in the Special Fund in such amounts and at such times as to permit the Trustee to deposit and set aside in each Bond Year in the following respective special accounts within the Special Fund (each of which is created by the Indenture and each of which the Agency covenants and agrees to cause to be maintained under the Indenture), in the following order of priority (except as otherwise provided in subsection (2) below), (i) Interest Account; (ii) Principal Account; (iii) Term Bonds Sinking Account; (iv) Reserve Account; and (v) Surplus Account. The Trustee agrees to make such deposits in the following amounts and at such times and in such priority. All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized under this heading.

(1) Interest Account. On or before each Interest Payment Date, the Trustee shall set aside, from money in the Special Fund transferred by the Agency, and deposit in the Interest Account an amount of money which, together with any money contained therein, is equal to the amount of the interest becoming due and payable on all Outstanding Bonds on the next Interest Payment Date. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds on the Interest Payment Dates in such Bond Year. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(2) Principal Account. On or before each Principal Payment Date, the Trustee shall set aside, from money in the Special Fund transferred by the Agency, and deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of principal becoming due and payable on all Outstanding Serial Bonds on such Principal Payment Date in such Bond Year. No deposit need be made into the Principal Account if the amount contained therein is at least equal to the aggregate amount of principal of all Outstanding Serial Bonds becoming due and payable on such Principal Payment Date in such Bond Year. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying principal of the Serial Bonds as they shall become due and payable. In the event that there shall be insufficient money in the Special Fund to pay in full all such principal and Sinking Account Installments due pursuant to paragraph (3) below in such Bond Year, then the money available in the Special Fund shall be applied pro rata to the payment of such principal and Sinking Account Installments in the proportion which all such principal and Sinking Account Installments bear to each other.

(3) Term Bonds Sinking Account. On or before each Sinking Account Payment Date, the Trustee shall deposit in the Term Bonds Sinking Account, from money in the Special Fund transferred by the Agency, an amount of money which, together with any money contained therein, is equal to the Sinking Account Installments payable on the Sinking Account Payment Date in such Bond Year. No deposit need be made in the Term Bonds Sinking Account if the amount contained therein is at least equal to the aggregate amount of all Sinking Account Installments required to be made on the Sinking Account Payment Date in such Bond Year. All money in the Term Bonds Sinking Account shall be used and withdrawn by the Trustee solely for the purpose of purchasing or redeeming the Term Bonds in accordance with the Indenture.

(4) Reserve Account. On or before August 1 of each year, the Trustee shall set aside from money in the Special Fund transferred by the Agency (or subject to the terms of any Supplemental Indenture, transfer from an escrow fund created thereunder) and deposit in the Reserve Account such amount of money as may be necessary to maintain on deposit therein an amount equal to the Reserve Account Requirement. No deposit need be made into the Reserve Account so long as there shall be on deposit therein an amount equal to the Reserve Account Requirement. All money in or credited to the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account or the Term Bonds Sinking Account in such order, in the event of any deficiency in any of such accounts occurring on any Interest Payment Date, Principal Payment Date or Sinking Account Payment Date, or for the purpose of paying the interest on or the principal of the Bonds in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all Bonds then Outstanding, except that for so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Account Requirement shall be withdrawn from the Reserve Account by the Trustee and transferred to the Surplus Account. Notwithstanding any provision of the Indenture to the contrary, all or any portion of the Reserve Account Requirement for the Bonds may be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Account, provide funds in an aggregate amount equal to the Reserve Account Requirement; provided that, the prior written consent of Ambac Assurance shall be obtained.

(5) Surplus Account. After making the deposits referred to in paragraphs (1) through (4) above in such Bond Year, the Trustee shall set aside, from money in the Special Fund transferred by the Agency, and deposit in the Surplus Account all remaining money so transferred. On August 2 of each year if the Agency is not then in default under the Indenture, the Trustee shall transfer the money in the Surplus Account to the Agency for deposit in the Redevelopment Fund unless, upon the Written Request of the Agency, the Trustee is instructed to purchase and cancel Bonds. Notwithstanding the foregoing, the Trustee shall first use any money in the Surplus Account solely for the purpose of replenishing the other accounts in the Special Fund, in the event of any deficiency at any time in any of such accounts occurring on any Interest Payment Date, Principal Payment Date or Sinking Account Payment Date, or for the purpose of paying the interest on or the principal of or redemption premiums, if any, on the Bonds in the event that no other money of the Agency is lawfully available therefor, or for the retirement (together with other available money) of all Bonds then Outstanding. Purchases of Outstanding Term Bonds may be made by the Trustee from money in the Surplus Account, upon the Written Request of the Agency, at public or private sale as and when and at such prices as the Agency may in its discretion determine; provided that, unless otherwise authorized by the Law, such prices (including brokerage or other expenses) shall not exceed the greater of (i) par plus accrued interest or (ii) the price at which the Bonds may then be called for redemption. Any accrued interest payable upon the purchase of Bonds may be paid from amounts held in the Special Fund for the payment of interest on the next following Interest Payment Date. Any Bonds so purchased shall be cancelled by the Trustee forthwith and shall not be reissued. The amount of any Term Bonds so purchased by the Trustee in any twelve-month period ending 60 days prior to any Sinking Account Payment Date in any year shall be credited towards and shall reduce the amount of mandatory Sinking Account Installment with respect to such Term Bonds required to be redeemed on such Sinking Account Payment Date in such year.

Investment of Money in Funds and Accounts

For so long as any Series 1997 Bonds remain Outstanding, the provisions described in this Appendix under the caption "Investment of Money in Funds and Accounts" shall apply. Thereafter, the following shall apply:

Subject to the provisions of the Indenture described in this Appendix under the caption "Tax Covenants; Rebate Fund," money in the Interest Account, the Principal Account, the Term Bonds Sinking Account, the Reserve Account and the Surplus Account, upon the Written Request of the Agency, shall be invested by the Trustee in Permitted Investments. In the absence of a Written Request of the Agency for the investment of money held in any fund or account held by the Trustee, the Trustee shall invest money in Permitted Investments described in clause (5) of the definition thereof. Subject to the provisions of the Indenture described in this Appendix under the caption "Tax Covenants; Rebate Fund," money in the Special Fund shall be invested by the Agency in Permitted Investments. The obligations in which money in the Special Fund, the Interest Account, the Principal Account, the Term Bond Sinking Account or the Surplus Account are so invested shall mature prior to the date on which such money is estimated to be required to be paid out under the Indenture; provided, that the Permitted Investments in which money in the Reserve Account are invested shall have an average aggregate weighted term to maturity not greater than five years. Money in the Redevelopment Fund may be invested by the Agency in any investments permitted by law. Any interest, income or profits from the deposits or investments of the Redevelopment Fund shall remain in the Redevelopment Fund. Any interest, income or profits from the deposits or investments of the Special Fund shall remain in the Special Fund. Any interest, income or profits from the deposits or investments of all funds and accounts held by the Trustee (other than the Rebate Fund and the Redevelopment Fund) shall be deposited in the Interest Account; provided, that any interest, income or profits from deposits or investments in the Reserve Account shall be retained therein unless the amount therein is equal to at least the Reserve Account Requirement.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Redevelopment Agency of the City of Folsom (the “Agency”) in connection with the issuance of \$10,190,000 aggregate principal amount of Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Tax Allocation Bonds, Series 2005 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 1997 as supplemented by First Supplemental Indenture of Trust dated as of August 1, 2005 (the “Indenture”), by and between the Agency and Union Bank of California, N.A., as trustee. The Agency covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Agency for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Central Post Office” shall mean the Disclosure USA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Continuing Disclosure Certificate.

“Dissemination Agent” shall mean any entity designated in writing by the Agency to perform the duties specified in Section 3(c) of this Disclosure Certificate and which has filed with the Agency a written acceptance of such designation.

“Fiscal Year” shall mean with respect to the Agency, the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the Agency, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Holders” shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any Beneficial Owner or applicable participant in its depository system.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. A list of the current National Repositories currently approved by the Securities and Exchange Commission may be found on the S.E.C. website at: <http://www.sec.gov/consumer/nrmsir.htm>.

“Participating Underwriter” shall mean Piper Jaffray & Co., the underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Agency shall, not later than 270 days after the end of the Agency’s Fiscal Year (which currently is June 30), commencing with the report for the 2004-05 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes for the Agency, the Agency shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof.

(b) Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent, if any. If the Agency is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Agency shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each Repository;
- (ii) file the Annual Report with each Repository by the date required therefor by Section 3(a) and file any notice of a listed Event, if requested by the Agency, as soon as practicable following receipt from the Agency of such notice; and
- (iii) file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports.

- (a) The Agency's Annual Report shall contain or include by reference the following:
- (i) The audited financial statements of the Agency for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, and as further modified according to applicable State law. If the Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.
 - (ii) Financial and operating data on page 23 of the Official Statement in the table titled "Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Area Taxable Values;"
 - (iii) Financial and operating data on page 23 of the Official Statement in the table titled "Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Area Tax Revenues."
 - (iv) Financial and operating data on page 24 of the Official Statement in the table titled "Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Area Ten Largest Taxpayers."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the documents included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such document so included by reference.

SECTION 5. Reporting of Significant Events.

- (a) Pursuant to the provisions of this Section 5, the Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:
- (i) principal and interest payment delinquencies;
 - (ii) non-payment related defaults;
 - (iii) modifications to rights of Bondholders;
 - (iv) optional, contingent or unscheduled bond calls;
 - (v) defeasances;
 - (vi) rating changes;

- (vii) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
- (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on credit enhancements reflecting financial difficulties;
- (x) substitution of credit or liquidity providers, or their failure to perform;
- (xi) release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, the Agency shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Agency determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Agency shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Agency's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Agency pursuant to this Disclosure Certificate.

SECTION 8. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Agency shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Agency. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

SECTION 10. Default. In the event of a failure of the Agency to comply with any provision of the Disclosure Certificate any Holder or Beneficial Owner of Outstanding Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Certificate in the event of any failure of the Agency to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or wilful misconduct. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. Notwithstanding anything to the contrary in Section 12, this Disclosure Certificate shall also inure to the benefit of the Dissemination Agent, if any.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: August __, 2005

REDEVELOPMENT AGENCY OF THE CITY OF
FOLSOM

By: _____
Finance Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Municipal Entity: Redevelopment Agency of the City of Folsom

Name of Bond Issue: \$10,190,000 aggregate principal amount of Redevelopment Agency of
the City of Folsom Central Folsom Redevelopment Project Tax
Allocation Bonds, Series 2005

Date of Issuance: August __, 2005

NOTICE IS HEREBY GIVEN that the Redevelopment Agency of the City of Folsom (the
“Agency”) has not provided an Annual Report with respect to the above-named Bonds as required by
Section 6.14 of the Indenture of Trust dated as of July 1, 1997 by and between the Agency and Union
Bank of California, N.A., as trustee, as supplemented by a First Supplemental Indenture of Tryst dated as
of August 1, 2005. The Agency anticipates that the Annual Report will be filed by _____.

Dated:

REDEVELOPMENT AGENCY OF THE CITY OF
FOLSOM

By: _____

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APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from DTC and the Redevelopment Agency takes no responsibility for the completeness or accuracy thereof. The Redevelopment Agency cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2005 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2005 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2005 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2005 Bonds. The Series 2005 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2005 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "GSCC," "MBSCC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2005 Bonds, except in the event that use of the book-entry system for the Series 2005 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2005 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2005 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Series 2005 Bonds may wish to ascertain that the nominee holding the Series 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2005 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 2005 Bonds by the Redevelopment Agency will reduce the outstanding principal amount of Series 2005 Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Series 2005 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Series 2005 Bonds for the Beneficial Owners. Any such selection of Series 2005 Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the Redevelopment Agency or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct

Participants to whose accounts the Series 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2005 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 Redevelopment Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Redevelopment Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2005 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Redevelopment Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER THE REDEVELOPMENT AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 2005 BONDS FOR REDEMPTION.

Neither the Redevelopment Agency nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2005 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Series 2005 Bonds at any time by giving reasonable notice to the Redevelopment Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the Redevelopment Agency nor the Trustee take any responsibility for the accuracy thereof.

The Redevelopment Agency and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2005 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Redevelopment Agency nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2005 Bonds or an error or delay relating thereto.

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

Redevelopment Agency of
the City of Folsom
Folsom, California

Redevelopment Agency of the City of Folsom
Central Folsom Redevelopment Project
Tax Allocation Bonds, Series 2005
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of Folsom (the "Agency") of \$10,190,000 aggregate principal amount of bonds designated "Redevelopment Agency of the City of Folsom, Central Folsom Redevelopment Project Tax Allocation Bonds, Series 2005" (the "Bonds") pursuant to the provisions of the Community Redevelopment Law of the State of California (being Part 1 of Division 24 of the Health and Safety Code of the State of California), as amended, and an Indenture of Trust, dated as of July 1, 1997, as supplemented by a First Supplemental Indenture, dated as of August 1, 2005 (collectively, the "Indenture"), by and between the Agency and Union Bank of California, N.A. (the "Trustee"); and all capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Agency, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Agency, the Trustee and others, certificates of the Agency, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such

authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Agency. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against redevelopment agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Agency.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Agency. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and upon the terms and conditions set forth in the Indenture.
3. The Bonds are not a lien or charge upon the funds or property of the Agency except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the City of Folsom or the State of California and said city and said state are not liable for the payment thereof.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE.**

**MUNICIPAL BOND DEBT SERVICE
RESERVE INSURANCE POLICY**

ISSUER:

Policy No.: -R

BONDS:

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Bond Document. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or of interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by Financial Security hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due

upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$_____. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. "Termination Date" means the earlier of _____ and the date the _____ are no longer outstanding under the Bond Document.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, set off or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100



**FINANCIAL
SECURITY
ASSURANCE.**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

BONDS:

Policy No.:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 560NY (CA 1/91)

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