

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Redevelopment Agency of the City of Lafayette, 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 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 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding other tax consequences related to the ownership or disposition of or the accrual or receipt of interest on the Bonds. See "TAX MATTERS" herein.



\$9,600,000
REDEVELOPMENT AGENCY OF THE CITY OF LAFAYETTE
(County of Contra Costa, California)
Lafayette Redevelopment Project Tax Allocation Bonds
Series 2008

Dated: Date of Delivery

Due: August 1, as shown below

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Redevelopment Agency of the City of Lafayette (the "Agency") is issuing the Lafayette Redevelopment Project Tax Allocation Bonds, Series 2008 (the "Bonds") for the purpose of (i) funding certain capital improvements, (ii) funding a reserve fund, (iii) paying a portion of the debt service for the Bonds through August 1, 2009 and (iv) paying the costs of issuing the Bonds. See "THE FINANCING PLAN" herein. The Bonds are limited obligations of the Agency payable from and secured by Tax Increment Revenues payable under the Indenture as defined herein.

The Bonds are authorized pursuant to the Constitution and laws of the State of California, including the California Community Redevelopment Law and a Resolution adopted by the Agency. The Bonds will be issued pursuant to a Second Supplemental Indenture, dated as of November 1, 2008 (the "Second Supplemental Indenture"), between the Agency and Wells Fargo Bank, National Association, San Francisco, California, as successor trustee (the "Trustee"), supplementing the Indenture of Trust, dated as of August 1, 2002 (the "Original Indenture", and as supplemented, the "Indenture"), between the Agency and the Trustee.

Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2009. The Bonds will be issued in fully registered form, without coupons, in the principal amounts of \$5,000 or any integral multiples thereof for each maturity.

The Bonds are subject to redemption as described herein. See "THE BONDS – Redemption Features."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND AS SUCH ARE NOT A DEBT OF THE CITY OF LAFAYETTE, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE AGENCY, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT WILL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AGENCY AS SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.

MATURITY SCHEDULE

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP (506025*)	Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP (506025*)
2011	\$ 45,000	3.750%	3.850%	CD5	2018	\$130,000	5.250%	5.400%	CL7
2012	100,000	4.000	4.150	CE3	2019	140,000	5.500	5.600	CM5
2013	105,000	4.300	4.400	CF0	2020	145,000	5.700	5.800	CN3
2014	105,000	4.500	4.600	CG8	2021	155,000	5.800	5.900	CP8
2015	110,000	4.800	4.900	CH6	2022	160,000	5.900	6.000	CQ6
2016	115,000	4.900	5.050	CJ2	2023	175,000	5.900	6.050	CR4
2017	125,000	5.100	5.200	CK9	2024	185,000	6.000	6.100	CS2

\$1,090,000, 6.250% Term Bonds due August 1, 2029 Price 6.350% CUSIP: 506025CU7*

\$1,145,000, 6.375% Term Bond due August 1, 2033, Priced 6.625% CUSIP: 506025CV5*

\$5,570,000, 6.500% Term Bond due August 1, 2038, Priced 6.750% CUSIP: 506025CW3*

The Bonds are being issued for sale to the City of Lafayette Public Facilities Financing Authority (the "Authority") and will be resold by the Authority to Piper Jaffray & Co. (the "Underwriter").

The Bonds were purchased and resold at a negotiated sale on October 29, 2008, by the Authority to the Underwriter. The Bonds will be offered when, as and if issued by the Agency and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Redevelopment Agency of the City of Lafayette. It is anticipated that the Bonds, in definitive form, will be available for delivery in New York, New York, on or about November 12, 2008.

PiperJaffray

Dated: October 29, 2008

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**REDEVELOPMENT AGENCY OF THE CITY OF LAFAYETTE
and
CITY OF LAFAYETTE
County of Contra Costa, California**

AGENCY BOARD AND CITY COUNCIL

Mike Anderson, *Agency Chair and Mayor*

Don Tatzin, *Agency Vice Chair and Vice Mayor*

Carl Anduri, *Agency Board Member and Council Member*

Carol Federighi, *Agency Board Member and Council Member*

Brandt Andersson, *Agency Board Member and Council Member*

AGENCY AND CITY STAFF

Steven B. Falk, *Executive Director and City Manager*

Tracy Robinson, *Administrative Services Director of the City*

Gonzalo Silva, *Financial Services Manager of the City*

Best, Best & Krieger LLP, *Agency Counsel and City Attorney*

**BOND COUNSEL AND
DISCLOSURE COUNSEL**

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San Francisco, California

TRUSTEE

Wells Fargo Bank, National Association
San Francisco, California

UNDERWRITER

Piper Jaffray & Co.
San Francisco, California

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds by the Agency. No dealer, broker, salesperson or other person has been authorized by the Agency to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the Agency.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 as amended, in reliance upon an exemption provided thereunder by Section 3(a)2 for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein, other than that furnished by the Agency, has been obtained from sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Agency. 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 will, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2008 Bonds. Statements contained in this Official Statement which 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 a representation of facts.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Agency does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT 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

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OFFICIAL STATEMENT

\$9,600,000
REDEVELOPMENT AGENCY OF THE CITY OF LAFAYETTE
(County of Contra Costa, California)
Lafayette Redevelopment Project
Tax Allocation Bonds,
Series 2008

INTRODUCTION

This Official Statement (including the cover and Appendices hereto, the “Official Statement”) is provided to furnish information in connection with the sale of \$9,600,000 aggregate principal amount of the Redevelopment Agency of the City of Lafayette, Lafayette Redevelopment Project Tax Allocation Bonds, Series 2008 (the “Bonds” or the “Series 2008 Bonds”).

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The Redevelopment Agency of the City of Lafayette (the “Agency”) has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Agreement to be executed by the Agency. See “LEGAL MATTERS – Continuing Disclosure” herein.

The Bonds are being issued pursuant to the Constitution and laws of the State of California (the “State”), including the Community Redevelopment Law (commencing with Section 33000 of the California Health and Safety Code) (the “Redevelopment Law”), and a Second Supplemental Indenture, dated as of November 1, 2008 (the “Second Supplemental Indenture”), between the Agency and Wells Fargo Bank, National Association, San Francisco, California, as trustee (the “Trustee”), supplementing the Indenture of Trust, dated as of August 1, 2002 (the “Original Indenture”, and as supplemented, the “Indenture”), between the Agency and the Trustee (as successor to U.S. Bank National Association). Proceeds of the Bonds will be used to aid in the financing of various redevelopment projects as set forth in the Redevelopment Plan (the “Redevelopment Plan”), including the Lafayette Library and Learning Center, (i) to fund a debt service reserve fund for the Bonds, (ii) to pay a portion of the debt service on the Bonds through August 1, 2009 and (iii) to pay certain costs of issuing the Bonds. See “THE FINANCING PLAN.”

The Bonds are being issued for sale to the City of Lafayette Public Facilities Financing Authority (the “Authority”) pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code (the “JPA Law”). See “THE AUTHORITY” below. The Bonds purchased by the Authority will be resold concurrently to Piper Jaffray & Co. (the “Underwriter”).

Pursuant to the Indenture, the Agency has previously issued \$5,585,000 of its Lafayette Redevelopment Project Tax Allocation Bonds, Series 2002 (the “Series 2002 Bonds”) and \$11,680,000 of its Lafayette Redevelopment Project Tax Allocation Bonds, Series 2005 (the “Series 2005 Bonds”). See “SECURITY FOR THE BONDS – Outstanding Debt” herein.

The City

The City is located in central Contra Costa County (the “County”), one of the nine counties of the San Francisco Bay Area, and is primarily a residential community, with commercial and light industrial enterprises as well as local governmental offices.

Governed by an elected City Council (the “City Council”) consisting of five members, the City was incorporated as a general law city in 1968. The members serve overlapping four year terms. The council members serve without compensation. The City Council selects one member to serve as mayor for a one-year term that expires in December. Mike Anderson has served in this capacity since December, 2007.

For additional information about the City, see “APPENDIX B: GENERAL INFORMATION REGARDING THE CITY AND AREA.”

The Agency

The Agency was established by Ordinance No. 126 of the City Council, adopted on May 1, 1974, pursuant to the Community Redevelopment Law of California. The Redevelopment Plan (the “Redevelopment Plan”) for the Lafayette Redevelopment Project (the “Project Area”) was adopted by the Agency on December 27, 1994. The Project Area occupies approximately 290 acres located in the downtown area and constitutes approximately 3% of the land area of the City. See “THE LAFAYETTE REDEVELOPMENT PROJECT AREA.”

Pursuant to the Redevelopment Law, a portion of all property tax revenues, including certain reimbursements by the State of California, collected by or for each taxing agency on any increase in the taxable value of certain property within the Project Area over that shown on the assessment rolls for the base year applicable to the Project Area, may be pledged to the repayment of indebtedness incurred by the Agency in connection with the redevelopment of the Project Area, subject to certain Redevelopment Plan limitations. The Bonds are secured by a pledge of and lien on such tax increment revenue, with certain exclusions. See “SECURITY FOR THE BONDS.”

Brief descriptions of the Bonds, the Indenture, the Agency, the Project Area, the Authority and the City, as well as the audited financial statements of the Agency for the fiscal year ended June 30, 2007, are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bonds and the Constitution and laws of the State as well as the proceedings of the Agency and the City are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture.

THE FINANCING PLAN

Sources and Uses of Funds

Under the Agency's financing plan, proceeds of the sale of the Bonds (in addition to paying a portion of the debt service on the Bonds through August 1, 2009, paying issuance costs and funding a deposit to the Reserve Account) will be used to aid in the financing of various redevelopment projects as set forth in the Redevelopment Plan, including the design and construction of the Lafayette Library and Learning Center (the "Project").

Sources of Funds:

Principal Amount of Bonds	\$9,600,000.00
Original Issue Discount	(241,117.95)
Total Sources of Funds	<u>\$9,358,882.05</u>

Uses of Funds:

Redevelopment Fund Deposit	\$8,306,162.46
Capitalized Interest	236,637.65
Reserve Account Deposit	600,881.94
Costs of Issuance ⁽¹⁾	<u>215,200.00</u>
Total Uses of Funds	<u>\$9,358,882.05</u>

⁽¹⁾ Includes legal fees, printing expenses, underwriter's discount, rating agency fees and miscellaneous costs of issuance.

The Project involves the construction of a three-level building at Mt. Diablo and First Street, which will serve as the Lafayette Library and Learning Center with the Glen Seaborg Learning Consortium. The new library will consist of 29,000 total square feet and is designed to hold a collection of 89,000-95,000 books and audiovisual materials. Existing design features include a technology lab with 42 public computers; laptop access and wireless connectivity throughout; 186 reader seats; a community meeting room with a small stage and a kitchen from which food prepared off-site can be served; a large adult area with "solar fireplace;" a teen area and three group study rooms; a children's area with storytelling and class visit space for 30 children; exhibit space for art and local history displays; drive-through book drop-off and automatic sorting; 79 on-site parking spaces; outdoor reading and meeting areas; Friends of the Lafayette Library Book Room; offices for a Lafayette Library and Learning Center Foundation and the Lafayette Arts and Sciences Foundation; a café serving foods primarily prepared off-site; and exhibit, study, and storage space for Lafayette's local history resources. Through the Glen Seaborg Learning Consortium, collaborative learning materials, workshops, exhibits, K-12 curricula, archives, concerts, lectures, and discovery centers will be available to the community.

The cost of the Project is estimated at \$43 million for land acquisition, site development, building and furnishings. The Agency is purchasing and providing the design, land and parking

for the Project. Other financing sources for the Project include a grant from the State of California Library Bond Act, private funding sources and a portion of the proceeds of the Bonds.

THE BONDS

Authority for Issuance

The Bonds were authorized by a resolution of the Agency, adopted on October 14, 2008 (the “Resolution”), and a resolution of the City, adopted on October 14, 2008, and are being issued pursuant to the Indenture and in accordance with the Redevelopment Law and other applicable laws and the Constitution of the State.

Description of the Bonds

Principal of and redemption premiums, if any, on the Bonds will be payable upon the surrender thereof at maturity or the earlier redemption thereof at the principal corporate trust office of the Trustee in San Francisco, California. Principal of and redemption premiums, if any, and interest on the Bonds will be paid in lawful money of the United States of America.

The Bonds are being issued as fully registered bonds, registered in the name of the owner thereof, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof. The Bonds in denominations of \$5,000 each or integral multiples thereof, are dated the date of delivery and mature on the dates and in the amounts set forth on the front cover hereof. Interest is first payable on February 1, 2009, and semiannually thereafter on February 1 and August 1 of each year (each an “Interest Payment Date”). The Bonds will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is during the period from the 16th day of the month next preceding an Interest Payment Date to and including such Interest Payment Date, in which event they will bear interest from such Interest Payment Date, or unless such date of registration is on or before the fifteenth day of the month next preceding the first Interest Payment Date, in which event they will bear interest from their dated date; provided, however, that if, at the time of registration of any Series 2008 Bond, interest is then in default on the Outstanding Bonds, such Series 2008 Bond will bear interest from the Interest Payment Date to which interest previously has been paid or made available for payment on the Outstanding Bonds. Payment of interest on the Bonds due on or before the maturity or prior redemption of such Bonds will be made to the person whose name appears on the bond registration books of the Trustee as the registered owner thereof (the “Owner”), as of the close of business on the 15th day of the month next preceding the Interest Payment Date, such interest to be paid by check mailed on each Interest Payment Date by first-class mail to such registered owner at her address as it appears on such books, or, upon written request received by the Trustee prior to the fifteenth day of the month preceding an Interest Payment Date, of an Owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account within the United States designated by such Owner.

Optional Redemption

The Bonds maturing on and after August 1, 2014, are subject to optional redemption prior to their stated maturity dates on or after August 1, 2013, as a whole or in part on any date, at the option of the Agency, from any source of funds, at the redemption prices set forth below, plus accrued interest with respect thereto to the date fixed for redemption.

<u>Date</u>	<u>Price</u>
August 1, 2013 to July 31, 2014	102%
August 1, 2014 to July 31, 2015	101%
August 1, 2015 and thereafter	100%

Mandatory Sinking Fund Redemption

The Bonds maturing on August 1, 2029 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2025, from and in the amount of the mandatory sinking account payments due and payable on such dates, at a redemption price equal to the sum of the principal amounts thereof plus accrued interest thereon to the date fixed for redemption, without premium, in the amounts and on the dates set forth below; *provided, however*, that if some but not all of the Series 2008 Bonds have been redeemed pursuant to Section 21.01 of the Indenture, the total amount of all future Sinking Account payment will be reduced by the aggregate principal amount of Series 2008 Bonds so redeemed, to be allocated among the Sinking Account payments as are thereafter payable on a pro rata basis in integral multiples of \$5,000 as determined by the Agency (notice of which determination will be given by the Agency to the Trustee):

<u>Redemption Dates (August 1)</u>	<u>Principal Amount Redeemed</u>
2025	\$190,000
2026	205,000
2027	220,000
2028	230,000
2029*	245,000

* Final Maturity

The Bonds maturing on August 1, 2033 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2030, from and in the amount of the mandatory sinking account payments due and payable on such dates, at a redemption price equal to the sum of the principal amounts thereof plus accrued interest thereon to the date fixed for redemption, without premium, in the amounts and on the dates set forth below; *provided, however*, that if some but not all of the Series 2008 Bonds have been redeemed pursuant to Section 21.01 of the Indenture, the total amount of all future Sinking Account payment will be reduced by the aggregate principal amount of Series 2008 Bonds so redeemed, to be allocated among the Sinking Account payments as are thereafter

payable on a pro rata basis in integral multiples of \$5,000 as determined by the Agency (notice of which determination will be given by the Agency to the Trustee):

Redemption Dates (August 1)	Principal Amount Redeemed
2030	\$260,000
2031	275,000
2032	295,000
2033*	315,000
<hr/>	
*	Final Maturity

The Bonds maturing on August 1, 2038 are subject to mandatory sinking fund redemption prior to their stated maturity, in part by lot, on August 1 of each year on and after August 1, 2034, from and in the amount of the mandatory sinking account payments due and payable on such dates, at a redemption price equal to the sum of the principal amounts thereof plus accrued interest thereon to the date fixed for redemption, without premium, in the amounts and on the dates set forth below; *provided, however*, that if some but not all of the Series 2008 Bonds have been redeemed pursuant to Section 21.01 of the Indenture, the total amount of all future Sinking Account payment will be reduced by the aggregate principal amount of Series 2008 Bonds so redeemed, to be allocated among the Sinking Account payments as are thereafter payable on a pro rata basis in integral multiples of \$5,000 as determined by the Agency (notice of which determination will be given by the Agency to the Trustee):

Redemption Dates (August 1)	Principal Amount Redeemed
2034	\$ 335,000
2035	355,000
2036	1,525,000
2037	1,625,000
2038*	1,730,000
<hr/>	
*	Final Maturity

Notice of Redemption

Notice of redemption will be mailed by first class mail by the Trustee, on behalf and at the expense of the Agency, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) one or more Information Services designated in writing to the Trustee by the Agency and (iii) the Securities Depositories. Each notice of redemption will state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such

notice will also state that on said date there will become due and payable on each of such Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Series 2008 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. The failure of any Owner to receive any redemption notice mailed to such owner, or any defect in such notice, will not affect the sufficiency of the proceedings for the redemption of such Bonds, or the cessation of interest on the date fixed for redemption.

Purchase in Lieu of Redemption

In lieu of redemption of any Series 2008 Bond, amounts on deposit in the Tax Increment Fund or in the Sinking Account therein may also be used and withdrawn by the Trustee at any time, upon the request of the Agency and upon the prior written consent of the Series 2008 Bond Insurer, for the purchase of such Bonds at public or private sale as and when and at such prices (including brokerage and other charges) as the Agency may in its discretion determine, but not in excess of the principal amount thereof plus accrued interest to the purchase date. The principal amount of any Bonds so purchased by the Trustee in any twelve-month period ending 60 days prior to any Principal Payment Date in any year will be credited towards and will reduce the principal amount of such Bonds required to be redeemed on such Principal Payment Date in such year.

SECURITY FOR THE BONDS

Introduction

The Redevelopment Law and the California Constitution provide a method for financing and refinancing redevelopment projects based upon an allocation of taxes collected within a project area.

As provided in the Redevelopment Plan, as amended, and in the Indenture, and pursuant to Section 33670, *et seq.*, of the Redevelopment Law and Section 16 of Article XVI of the California Constitution, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State, any city, county, city and county or other public corporation (the "taxing agencies") for fiscal years beginning after the effective date of the ordinance adopting the Redevelopment Plan for the Project Area will be divided as follows:

1. The portion equal to the amount of taxes produced by the then current tax rate, applied to the assessed valuation of such property in the Project Area as shown on the applicable base year assessment roll as last equalized prior to the establishment of the Project Area will be, when collected, paid into the funds of those respective taxing agencies;
2. Except as provided in subparagraph 3 below, that portion of said levied taxes each year in excess of such amount, will be allocated to, and when collected, will be paid into the Tax Increment Fund of the Agency, to the extent required to pay the principal

of and interest on loans advanced to, or indebtedness (whether funded, refunded, assumed or otherwise) incurred by the Agency to finance or refinance, in whole or in part, the Agency's redevelopment projects within the Project Area; and

3. That portion of the taxes identified in subparagraph 2 which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues in an amount sufficient to make annual repayments of principal of, and the interest on, any bonded indebtedness for the acquisition or improvement of real property approved by the voters of the taxing agency on or after January 1, 1989, will be allocated to, and when collected will be paid into, the fund of the taxing agency.

With respect to the portion of taxes deposited in subparagraph 3 above, no such tax rate for voter-approved bonds is being applied in the estimates of Tax Increment Revenues (as defined below).

Revenues generated as set forth above and allocated to the Agency are generally referred to as gross "tax increment revenues." The net Tax Increment Revenues (as defined below) which secure the Bonds are a portion of such gross tax increment revenues. County administration fees are deducted from gross tax increment revenues before distribution of any tax increment revenues to the Agency. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Tax Collection Fees" below.

The pledged Tax Increment Revenues are defined in the Indenture to mean, for each Bond Year, beginning in the Bond Year in which the Series 2008 Bonds are issued, the money allocated or paid to the Agency derived from (a) that portion of taxes levied upon assessable property within the Project Area allocated to the Agency pursuant to Article 6 of Chapter 6 of the Redevelopment Law, Section 16 of Article XVI of the Constitution of the State of California, and the Redevelopment Plan (exclusive of (i) amounts, if any, received by the Agency with respect to personal property within the Project Area pursuant to Section 16111 of the Government Code, and (ii) amounts payable by the Agency pursuant to the statutory Pass-Through Obligations of the Agency in accordance with Section 33607.5 of the Redevelopment Law except to the extent such payments are subordinate to the payment of Annual Debt Service), and (b) reimbursements, subventions, or other payments made by the State of California with respect to any property taxes that would otherwise be due on real or personal property but for an exemption of such property from such taxes; and including that portion of such taxes (if any) otherwise required by Section 33334.2 of the Redevelopment Law to be deposited in the Low and Moderate Income Housing Fund, but only to the extent necessary to repay that portion of the proceeds of the Bonds, the Series 2002 Bonds or the Series 2005 Bonds (including applicable reserves, financing costs and required debt service coverage) used to increase or improve the supply of low and moderate income housing within or of benefit to the Project Area, and excluding all other amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Low-and-Moderate Income Housing Fund."

All the Tax Increment Revenues and all money in the funds or accounts so specified and provided for in the Indenture (except for the Rebate Fund and the Expense Fund), whether held by the Agency or the Trustee, are irrevocably pledged to the punctual payment of the interest on

and principal of and redemption premiums, if any, on the Bonds, the Series 2002 Bonds and Series 2005 Bonds, and the Tax Increment Revenues and such other money will not be used for any other purpose while any of the Bonds, the Series 2002 Bonds or the Series 2005 Bonds remain Outstanding. This pledge will constitute a first lien on the Tax Increment Revenues and such other money for the payment of the Bonds on parity with the Series 2002 Bonds and the Series 2005 Bonds in accordance with the terms of the Indenture. See “APPENDIX A: SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Pledge of Tax Increment Revenues.”

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND AS SUCH ARE NOT A DEBT OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE CITY, STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT WILL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AGENCY SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.

Summary of Tax Increment Pledge

The Series 2008 Bonds will be secured by a pledge of Tax Increment Revenues, as defined above (which, by definition, do not include the 20% Housing Set Aside), net of the County’s administration fee. The AB 1290 revenue sharing (or, alternatively, “pass-through”) payments have been subordinated to the Series 2008 Bonds, Series 2005 Bonds and Series 2002 Bonds debt service. See “FACTORS AFFECTING TAX ALLOCATION FINANCING – AB 1290, AB 1342 and SB 211” below. Based on current revenues and the subordination of the revenue sharing payments, average debt service coverage on the Bonds is expected to be approximately 135% annually, assuming no growth in assessed value.

Outstanding Debt

The Agency issued \$5,585,000 of its Lafayette Redevelopment Project Tax Allocation Bonds, Series 2002 pursuant to the Original Indenture on August 20, 2002. In addition, the Agency issued \$11,680,000 of its Lafayette Redevelopment Project Tax Allocation Bonds, Series 2005 pursuant to the First Supplemental Indenture, supplementing and amending the Original Indenture, on November 9, 2005. The Series 2002 Bonds remain outstanding in the amount of \$5,460,000, and the Series 2005 Bonds remain outstanding in the amount of \$11,600,000. Both prior series of bonds are secured on a parity basis with the Series 2008 Bonds.

Flow of Funds

There is established a Tax Increment Fund, known as the “Tax Increment Fund”, held by the Trustee. The Agency will transfer all of the Tax Increment Revenues received in any Bond Year to the Trustee for deposit in the Tax Increment Fund promptly upon receipt thereof by the Agency; provided that the Agency will not be obligated to deposit in the Tax Increment Fund in any Bond Year an amount of Tax Increment Revenues which, together with other available

amounts in the Tax Increment Fund, exceeds the amounts required to be transferred to the Trustee for deposit in the Interest Account, Principal Account, Term Bonds Sinking Account and the Reserve Account in such Bond Year. Any Tax Increment Revenues received during such Bond Year at such time during such Bond Year as the amounts on deposit in the Tax Increment Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Term Bonds Sinking Account and the Reserve Account in such Bond Year, will be released from the pledge and lien of the Indenture and may be used for any lawful purposes of the Agency.

All Tax Increment Revenues and any other amounts at any time paid by the Agency and designated in writing for deposit in the Tax Increment Fund will be held by the Trustee solely for the uses and purposes set forth hereinafter. So long as any of the Bonds, the Series 2002 Bonds or the Series 2005 Bonds are Outstanding, the Agency will not have any beneficial right or interest in the Tax Increment Revenues, except only as provided in the Indenture, and such moneys will be used and applied as hereafter set forth.

Moneys in the Tax Increment Fund will be transferred by the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective special accounts in the following order of priority which special accounts are created to be held in trust by the Trustee:

(a) Interest Account. Five (5) days prior to each Interest Payment Date, the Trustee will withdraw from the Tax Increment Fund and deposit in the Interest Account an amount which, when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the outstanding Series 2008 Bonds, Series 2005 Bonds and Series 2002 Bonds (the "Outstanding Bonds") on such Interest Payment Date. No such deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date. The Trustee will also deposit in the Interest Account any other amounts received by it from the Agency designated by the Agency in writing for deposit in the Interest Account. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Outstanding Bonds as it will become due and payable (including accrued interest on any Outstanding Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. Five (5) days prior to each Principal Payment Date, the Trustee will withdraw from the Tax Increment Fund and deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Bonds on such Principal Payment Date. No such deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next succeeding Principal Payment Date. The Trustee will also deposit in the Principal Account any other amounts received by it from the Agency designated by the Agency in writing for deposit in the Principal Account. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Bonds as it will become due and payable.

(c) Term Bonds Sinking Account. On the Business Day preceding any date on which Term Bonds are to be redeemed, the Trustee will withdraw from the Tax Increment Fund and deposit in the Term Bonds Sinking Account an amount required to pay the principal of and premium, if any, on the Term Bonds to be redeemed on such date, taking into account any funds then on deposit in the Term Bonds Sinking Account. The Trustee will also deposit in the Term Bonds Sinking Account any other amounts received by it from the Agency designated by the Agency in writing to be deposited in the Term Bonds Sinking Account. All moneys in the Term Bonds Sinking Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Term Bonds to be redeemed on the respective dates set for such redemption.

(d) Reserve Account. The Reserve Account is established and will be held by the Trustee solely for the benefit of the owners of the Bonds.

On each Interest Payment Date, the Trustee will withdraw from the Tax Increment Fund and deposit in the Reserve Account an amount of money that will be required to maintain in the Reserve Account an amount equal to the Reserve Account Requirement. No such deposit need be made to the Reserve Account so long as there will be on deposit therein an amount at least equal to the Reserve Account Requirement. The term "Reserve Account Requirement" means, with respect to the Bonds, as of any calculation date, an amount equal to the Maximum Annual Debt Service on the Bonds, less a principal amount of term bonds of any maturity, the proceeds of which were initially deposited into an escrow fund (to be held by the Trustee) equal, at any point in time, to the deposit in such escrow fund; provided, that the Reserve Account Requirement may not be adjusted because of any such deposit into an escrow fund unless as a condition to and following any release of moneys from such escrow fund, the Reserve Account Requirement has been satisfied. Subject to certain conditions set forth in the Indenture, the Reserve Account Requirement described above may be satisfied in whole or in part by depositing a letter of credit, an insurance policy or surety bond with the Trustee. See "APPENDIX A: SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" herein.

All money in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account and the Term Bonds Sinking Account, in such order, in the event of any deficiency at any time in any of such accounts with respect to amounts due on the Outstanding Bonds or for the retirement of all of the Outstanding Bonds, except that so long as the Agency is not in default hereunder, any amount in the Reserve Account in excess of any amount equal to the Reserve Account Requirement may, at the written Request of the Agency, be withdrawn from the Reserve Account by the Trustee on the Business Day succeeding each February 1 and August 1 and deposited in the Surplus Account. All amounts in the Reserve Account on the day preceding the final Principal Payment Date will be withdrawn from the Reserve Account and transferred to the Interest Account, the Principal Account and the Term Bonds Sinking Account, in such order, to the extent required to make the deposits then required to be made with respect to amounts due on the Outstanding Bonds.

(e) Redemption Account. On the Business Day preceding any date on which Outstanding Bonds are to be redeemed pursuant to the provisions of the Indenture, the Trustee will withdraw from the Tax Increment Fund and deposit in the Redemption Account an amount

required to pay the principal of and premium, if any, on the Outstanding Bonds to be redeemed on such date taking into account any funds then on deposit in the Redemption Account. The Trustee will also deposit in the Redemption Account any other amounts received by it from the Agency designated by the Agency in writing to be deposited in the Redemption Account. All moneys in the Redemption Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the bonds to be redeemed on the respective dates set for such redemption.

(f) Surplus. Except as may be otherwise provided in any Additional Bonds, the Agency will not be obligated to transfer to the Trustee for deposit in the Tax Increment Fund in any Bond Year an amount of Tax Increment Revenues which, together with other available amounts in the Tax Increment Fund, exceeds the amounts required in such Bond Year. In the event that for any reason whatsoever any amounts will remain on deposit in the Tax Increment Fund on any August 2 after making all of the transfers theretofore required to be made pursuant to the preceding clauses (a), (b) and (c) and pursuant to any Additional Bonds, the Trustee will withdraw such amounts from the Tax Increment Fund and transfer such amounts to the Agency, to be used for any lawful purposes of the Agency.

Issuance of Parity Debt

In addition to the Bonds, the Series 2002 Bonds and the Series 2005 Bonds, the Agency may, by Supplemental Indenture, issue or incur other loans, advances or indebtedness payable from Tax Increment Revenues on a parity with the Bonds, the Series 2002 Bonds and the Series 2005 Bonds to finance projects pursuant to the Redevelopment Law in such principal amount as will be determined by the Agency. The Agency may issue and deliver any such Additional Bonds subject to the following specific conditions, as set forth in the Indenture, which are conditions precedent to the issuance and delivery of such Additional Bonds (the “Additional Bonds”):

(a) The Agency will be in compliance with all covenants set forth in the Indenture.

(b) The Tax Increment Revenues for the then current Fiscal Year, based on a property tax rate of one percent (1%) on assessed valuation of property in the Project Area, as evidenced in (a) a written document from an appropriate official of Contra Costa County; or (b) an Independent Fiscal Consultant’s certificate, based on the assessed valuation records of Contra Costa County, be at least equal to one hundred thirty-five percent (135%) of Maximum Annual Debt Service on all bonds and Additional Bonds which will be Outstanding following the issuance of such series of Additional Bonds, provided, however, that such test need not be met with respect to the issuance of Additional Bonds the proceeds of which are to be used to refund any other series of bonds if, following the issuance of any such refunding Additional Bonds, the annual debt service with respect to such refunding Additional Bonds during each Bond Year will be equal to or less than debt service with respect to the bonds refunded by such refunding Additional Bonds and the period for which the Agency will be obligated to pay such debt service will not extend beyond the term of the refunded bonds.

(c) The Supplemental Indenture providing for the issuance of such Additional Bonds will provide that:

(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 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; provided that (i) Principal Payment Dates and Term Bonds Sinking Account Payment Dates may occur only on Interest Payment Dates, (ii) all such Additional Bonds of like maturity will be identical in all respects, except as to number, and (iii) fixed serial maturities or mandatory Term Bonds Sinking Account Installments, or any combination thereof, will be established to provide for the retirement of all such Additional Bonds on or before their respective maturity dates;

(4) The Interest Payment Dates for such Additional Bonds; provided that Interest Payment Dates will be on the same semiannual dates as the Interest Payment Dates for the Series 2008 Bonds;

(5) The denomination and method of numbering of such Additional Bonds;

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

(7) The amount and due date of each mandatory Term Bonds Sinking Account Installment, if any, for such Additional Bonds;

(8) The amount, if any, to be deposited from the proceeds of such Additional Bonds in the Interest Account;

(9) 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 will 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 then Outstanding Bonds and such Additional Bonds, and that an amount at least equal to the Reserve Account Requirement on all Outstanding Bonds will thereafter be maintained in or credited to such Reserve Account;

(10) The form of such Additional Bonds; and

(11) Such other provisions, as are necessary or appropriate and not inconsistent with the Indenture.

For the purposes of the calculation of the coverage requirements set forth above with respect to the issuance of Additional Bonds, Outstanding Bonds and Additional Bonds will not include any bonds the proceeds of which are deposited in an escrow fund held by the Trustee, provided that the Supplemental Indenture authorizing the issuance of such Additional Bonds provides that:

(a) Such proceeds be deposited or invested in Federal Securities or in an Investment Agreement with a financial institution rated Aa or better by S&P's, 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 bonds the proceeds of which are to be deposited in the escrow fund held by the Trustee;

(b) Moneys may be transferred from said escrow fund only if Tax Increment Revenues for the then current Fiscal Year will be at least equal to one hundred thirty-five percent (135%) of Maximum Annual Debt Service on all Outstanding Bonds and such Additional Bonds and any unsubordinated loans, indebtedness or other obligations payable from tax increment revenue allocable to the Agency pursuant to Section 33670 of the Law (exclusive of disqualified Bonds described in Section 8.02 of the Indenture), less a principal amount of Bonds which is equal to moneys on deposit in said escrow fund after each such transfer; and

(c) Additional Bonds will 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.

Additionally, only after the Effective Date (which is the date that no Series 2002 Bonds remain Outstanding or of receipt of consent of the bond insurer for the Series 2005 Bonds and 100% of the holders of the Series 2002 Bonds), the Agency, at any time and from time to time, provide for the issuance of Additional Bonds, pursuant to the provisions of the Indenture described above in this subsection, that are Hedged Bonds, provided that such Hedged Bonds and Supplemental Indenture providing for the issuance thereof satisfy the following additional requirements:

(a) The aggregate amount of such Hedged Bonds outstanding does not at any time exceed forty percent (40%) of all outstanding Parity Obligations, *provided, however*, to the extent that such Hedged Bonds in excess of forty percent (40%) of all outstanding Parity Obligations is secured with a financial guaranty insurance policy from a monoline municipal bond insurance company whose claims paying ability is rated at least "A" by S&P and "A2" by Moody's, then this clause (a) will not apply;

(b) Concurrent with the issuance of such Hedged Bonds, the Agency will issue or enter into an obligation or commitment which is a Qualified Swap Agreement, the Net Payments under which will constitute Parity Obligations, provided (i) the Qualified Swap Agreement will relate to a principal amount of Outstanding Parity Obligations specified by an Authorized Agency Representative; and (ii) the notional amount of the Qualified Swap Agreement will not exceed the principal amount of the related Parity Obligations;

(c) The flow of funds under the Indenture will be amended to reflect that amounts payable to the counterparty from the Agency, including Agency Swap Payments, and amounts payable to the Agency from the counterparty under the Qualified Swap Agreement, including Net Payments, if any, with respect to such Hedged Bonds will pass through the Tax Increment Fund, and not be paid directly by the Agency to such counterparty or to the Agency by such counterparty; and

(d) The Agency's obligation to pay any Termination Payments in connection with such Hedged Bonds is expressly subordinate to the pledge of Tax Increment Revenues to secure the obligation to pay Annual Debt Service and any other payments due in connection with Parity Obligations hereunder.

For additional conditions relating to the issuance of Hedged Bonds, including the definitions of the capitalized terms used above, see "APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Definitions" and "— Amendments to Take Effect on the Effective Date Only".

Issuance of Subordinate Debt

In addition to the Bonds, the Series 2002 Bonds and the Series 2005 Bonds, the Agency may incur subordinate debt in such principal amount as will be determined by the Agency secured by a lien and charge on Tax Increment Revenues junior to that of the Bonds.

See "APPENDIX A: SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Additional Bonds".

FACTORS AFFECTING TAX ALLOCATION FINANCING

Property Tax Rate and Appropriation Limitations

Article XIII A of the California Constitution

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

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

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

Challenges to Article XIII A. On September 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union High School District v. State Board of Equalization*). The Court reserved certain constitutional issues and the validity of legislation implementing the amendment for future determination in proper cases. Since 1978, several cases have been decided interpreting various provisions of Article XIII A; however, none of them have questioned the ability of redevelopment agencies to use tax allocation financing. The United States Supreme Court upheld the validity of the assessment procedures of Article XIII A in *Nordlinger v. Hahn*.

The Agency cannot predict whether there will be any future challenges to California’s present system of property tax assessment and cannot evaluate the ultimate effect on the Agency’s receipt of Tax Increment Revenues should a future decision hold unconstitutional the method of assessing property.

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

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2 percent annual value growth) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs, except for certain utility property assessed by the State Board of Equalization. Local agencies and school districts will share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year. The Agency is unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above the 1 percent limit except for taxes to support indebtedness approved by the voters as described above.

Litigation Relating to Property Assessments. On December 27, 2001, the Orange County Superior Court, in the case of *County of Orange v. Orange County Assessment Appeals Board*

No. 3, case no. 00CC03385, ruled that where a home's market value did not increase for two years due to a flat real estate market, the Orange County assessor violated the provision of Article XIII A limiting the annual inflation adjustment to two percent when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by approximately four percent in a single year. The assessors in most California Counties, including Contra Costa County, use a similar methodology in raising the taxable values of property beyond two percent in a single year, and the State Board of Equalization has approved this methodology for increasing assessed values in similar circumstances. The Orange County Superior Court has not ruled on a motion to restate the complaint as a class action, which could have the effect of extending this ruling to other similar cases. The County of Orange Board of Supervisors has voted not to challenge the minute order, but has authorized the Assessor, if he chooses to appeal, to hire his own counsel. Subsequently, the Board of Supervisors authorized the Treasurer-Tax Collector and the Auditor-Controller to each hire counsel to advise them on matters related to this case. The Agency is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in the Project Area and on the Agency's property tax revenues.

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, known as the Gann-Initiative, which added Article XIII B to the California Constitution. Propositions 98 and 111, approved by the California voters in 1988 and 1990, respectively, substantially modify Article XIII B. 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 and population. The initial version of Article XIII B provided that the "base year" for establishing an appropriations limit was the 1978-79 Fiscal Year, which was then adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies. Proposition 111 revised the method for making annual adjustments to the appropriations limit by redefining changes in the cost of living and in population. It also required that beginning in Fiscal Year 1990-91, each appropriations limit must be recalculated using the actual 1986-87 appropriations limit and making the applicable annual adjustments as if the provisions of Proposition 111 had been in effect.

Appropriations subject to limitation of a local government under Article XIII B generally include any authorization to expend during a Fiscal Year the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity, exclusive of refunds of taxes. Proceeds of taxes include, but are not limited to, all tax revenues plus 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 cost of providing the service or regulation), (2) the investment of tax revenues, and (3) certain subventions received from the State.

As amended by Proposition 111, Article XIII B provides for testing of appropriations limits over consecutive two-year periods. If an entity's revenues in any two-year period exceed the amounts permitted to be spent over such period, the excess has to be returned by revising tax rates or fee schedules over the subsequent two years. As amended by Proposition 98, Article XIII B provides for the payment of a portion of any excess revenues to a fund established to assist in financing certain school needs.

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

Articles XIII C and XIII D of the California Constitution

On November 5, 1996, California voters approved Proposition 218 – Voter Approval for Local Government Taxes – Limitation on Fees, Assessments, and Charges – Initiative Constitutional Amendment adding Articles XIII C and XIII D to the California Constitution. Tax Increment Revenues securing the Agency’s obligations to make the Agency Payments are derived from property taxes, which are outside the scope of taxes, assessments and property-related fees and charges which were limited by Proposition 218.

Proposition 87

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

Property Tax Collection Procedure

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

Collections. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the

taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee.

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

Penalties. A 10 percent penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is declared in default on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5 percent per month to the time of redemption and a \$15 Redemption Fee. If taxes are unpaid for a period of five years or more, the property is recorded in a "Power to Sell" status and is subject to sale by the county tax collector. A 10 percent penalty also applies to the delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1-1/2 percent per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

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

Supplemental Assessments. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction after the January 1st lien date. The statute may provide 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 lien date. To the extent such supplemental assessments occur within the Project Area, Tax Increment Revenues may increase. See "THE LAFAYETTE REDEVELOPMENT PROJECT AREA". The projections of Tax Increment Revenues set forth herein do not include revenues from supplemental assessments.

County of Contra Costa Tax Loss Reserve Fund (Teeter Plan)

As required by State law, the City utilizes the services of the County for the assessment and collection of taxes for City purposes. City taxes are collected at the same time and on the same tax rolls as are County, school district, and other special district taxes. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. See "—Tax Rates, Levies, Collections and Delinquencies" below. Under the Teeter Plan, the County maintains a County Tax Loss Reserve Fund for the purpose of

paying each taxing entity 100% of the amounts of secured taxes levied (including tax increments) and assessments (created pursuant to the Improvements Act of 1915) posted in the tax bill.

The Contra Costa County Auditor-Controller reports that, to date, the Tax Loss Reserve Fund has proved adequate to meet all tax and special assessment delinquencies. There can be no guarantee, however, that the County Tax Loss Reserve Fund will continue to be sufficient to meet such delinquencies in the future. The balance in the County Tax Loss Reserve Fund as of June 30, 2008, as calculated by the Contra Costa County Auditor-Controller is \$46,366,431.29.

The County has the power to unilaterally discontinue the Teeter Plan on a county-wide basis with respect to one or more categories, including general taxes, special taxes or special assessment installments. The Teeter Plan may also be discontinued by petition of two-thirds (2/3) of the participant taxing agencies.

Tax Collection Fees

County Auditors are authorized by state law to determine property tax administration costs proportionately attributable to local jurisdictions, including redevelopment agencies. These charges to the Agency for fiscal year 2007-08 were approximately \$29,000. The County deducts these charges from gross tax increment revenues before distributing any tax increment revenues to the Agency. As a result, the amount of this charge in each year will not be available to pay debt service on the Bonds.

Unitary Property

AB 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with the 1988-89 Fiscal Year, assessed value derived from State-assessed unitary property county-wide is to be allocated as follows: (1) 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 case values will be allocated to each tax rate area on a pro-rata basis; and (2) 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 was 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 operating unitary 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 in accordance with a new formula. 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. Representatives of the County Auditor-Controller's office implemented the

procedures specified in Chapter 921 for redevelopment agencies for 1988-89 and subsequent Fiscal Years.

AB 454 (Statutes of 1987, Chapter 921) provided that revenues derived from Unitary Property, commencing with the 1988-89 fiscal year, will be allocated as follows: (1) for revenues generated from the one percent tax rate, (a) each jurisdiction, including project areas, will receive a percentage up to 102 percent of its prior year State-assessed unitary revenue; and (b) if countywide revenues generated from Unitary Property are greater than 102 percent of the previous year's unitary revenues, each jurisdiction will receive a percentage share of the excess unitary revenues by a specified formula; and (2) for revenue generated from the application of the debt service tax rate to county-wide unitary taxable value, 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. This provision applies to all Unitary Property except railroads whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the method of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county. The Agency's annual apportionment of Unitary Property tax revenues is negligible.

Litigation contesting the SBOE's procedures in determining the valuation of the seven largest utilities in the State has resulted in a stipulation between the SBOE and the utilities. According to the terms of the settlement, the valuations of the seven largest utilities declined by a total of 10.5%, and were phased in over a three year period.

State Board of Equalization and Property Assessment Practices

On December 10, 1998, the SBOE approved revisions to its guidelines regarding the valuation of intangible business and commercial property for property tax purposes. The SBOE approved these revisions over the strong objections of the California Assessors Association ("CAA"), an organization representing all 58 County Assessors in California. Prior to modification of the revised guidelines, SBOE staff estimated a Statewide loss of \$2.23 billion in property tax revenues. After modification of the revised guidelines, SBOE staff revised its estimated loss to \$4.36 million Statewide. However, the CAA has indicated in a media release dated December 10, 1998 that it does not believe that the modification to the revised guidelines will minimize the Statewide loss of property tax revenues to the extent claimed by SBOE staff.

The Agency is not able to predict, at this time, whether the revised SBOE guidelines will cause any reduction in its Tax Increment Revenues. However, the Agency does not believe that the SBOE's adoption of the revised guidelines will affect its ability to pay debt service on the Bonds.

Future Initiatives

Article XIII A, Article XIII B and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to California's initiative

process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency's ability to expend revenues.

Special Subventions

Special subventions constitute an important source of revenues to many redevelopment agencies across the State. However, currently the Agency is not entitled to receive any special subventions from the State, and existing law generally precludes the pledging of subventions as security for bonds.

Certification of Agency Indebtedness

Section 33675 of the Redevelopment Law requires a redevelopment agency to file with the Auditor a statement of indebtedness certified by the chief fiscal officer of the Agency for each redevelopment project that receives Tax Increment Revenues not later than the first day of October of each year. The statement of indebtedness is required to contain the date on which any bonds were delivered, the principal amount, term, purpose and interest rate of such bonds and the outstanding balance and amount due on such bonds. Similar information must be given for each loan, advance or indebtedness that the agency has incurred or entered into to be payable from tax increment revenues. Each agency must also file with its statement of indebtedness a reconciliation statement. The reconciliation statement details how the tax increment received in the previous year was actually spent and showing the Agency's tax increment reserves as of the beginning and end of the previous year. The reconciliation statement also must show the Agency's available revenue.

Section 33675 also provides that the Auditor is limited in payment of Tax Increment Revenues to the Agency to the amounts shown on the Agency's statement of indebtedness, otherwise allocable to the Agency, less the Agency's available revenue. The section further provides that the statement of indebtedness is prima facie evidence of the indebtedness of the Agency, but that the Auditor may dispute the amount of indebtedness shown on the statement in certain cases. Provision is made for time limits under which the dispute can be made by the Auditor as well as provisions for determination by the Superior Court in a declaratory relief action of the proper disposition of the matter. The issue in any such action will involve only the amount of the indebtedness and not the validity of any contract or debt instrument, or any expenditures pursuant thereto. An exception is made for payments to an agency in connection with payments by such agency pursuant to a bond issue. Such payments will not be disputed in any action under the section.

AB 1290, AB 1342 and SB 211

Assembly Bill 1290 ("AB 1290"), the Community Redevelopment Law Reform Act of 1993, included a number of changes to the Redevelopment Law, among them the imposition of a limit on the period of time that a redevelopment agency may receive tax increment revenues. In general, a redevelopment plan may terminate not more than 40 years following the date of original adoption, and loans, advances and indebtedness may be repaid during a period extending not more than 10 years following the date of termination of the redevelopment plan. The

Agency’s Plan complies with AB 1290. The specific provisions and limitations that apply to the Project Area are as follows:

	<u>Plan Limit(s)</u>
Indebtedness	
Final Date to Incur Debt	December 27, 2014
Plan Effectiveness	
Termination Date	December 27, 2024
Tax Increment Revenue	
Final Date to Collect Tax Increment and Repay Debt	December 27, 2039

Pursuant to the Redevelopment Plan, the limitation on the amount of annual tax increment the Agency can be allocated is equal to 1.75 times the maximum annual debt service of tax allocation bonds issued pursuant to the Health and Safety code Section 33640, *et seq.* (including subordinated Agency contractual obligations and other forms of City/Agency debt payable from tax allocations). The maximum amount of such debt (for tax allocation purposes) which can be outstanding at one time cannot exceed \$75 million. The Series 2008 Bonds will not count against the \$75 million limit, because the Project funded by the proceeds of the Bonds is considered a “mutually acceptable project” by the County and the City.

Assembly Bill 1342 (“AB 1342”) was passed in 1998 and became effective January 1, 1999. This bill permits agencies having limits shorter than those permitted by AB 1290 to amend their plans to incorporate the maximum permitted limits without complying with the statutory plan amendment process. However, the limits contained in the Redevelopment Plan are currently at the maximum permitted by AB 1290. The California Legislature recently enacted SB 211, Chapter 741, Statutes 2001, effective January 1, 2002 (“SB 211”). SB 211 provides, among other things, that at anytime after its effective date, the limitation on incurring indebtedness contained in a redevelopment plan adopted prior to January 1, 1994, may be deleted by ordinance of the legislative body. However, such deletion will trigger such statutory tax sharing with those taxing entities that do not have tax sharing agreements. Tax sharing will be calculated based on the increase in assessed valuation after the year in which the limitation would otherwise have become effective. See “Tax Sharing Statutes” below describing the formulas for tax sharing. The Agency currently has no expectations of undertaking proceedings to extend the effectiveness of the redevelopment plan or to extend the time to receive tax increment revenues and to pay indebtedness.

Tax Sharing Statutes

Certain provisions were added to the Redevelopment Law by the adoption of AB 1290 in 1994. If new territory should be added to the Redevelopment Project, under Section 33607.5 of the Redevelopment Law, any affected taxing entity would share in the Tax Increment Revenues generated by such added area pursuant to a statutory formula (“Statutory Tax Sharing”).

In addition, pursuant to Section 33333.6(a)(2) of the Redevelopment Law, if the Agency deletes the time limit to incur indebtedness in the Redevelopment Project (as amended by SB

211) or increases the total amount of Tax Increment Revenues to be allocated to the project area or increases the duration of the Redevelopment Plan and the period for receipt of Tax Increment Revenues, Statutory Tax Sharing will also be required under Section 33607.7 of the Redevelopment Law with all affected taxing agencies not already a party to a tax sharing agreement, once the original limitations have been reached. In general, the amounts to be paid pursuant to Statutory Tax Sharing are as follows:

(a) commencing in the first fiscal year after the limitation has been reached, an amount equal to 25% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted;

(b) in addition to amounts payable as described in (a) above, commencing in the 11th fiscal year after the limitation has been reached, an amount equal to 21% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (10th) fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted;

(c) in addition to amounts payable as described in (a) and (b) above, commencing in the 31st fiscal year after the limitation has been reached, an amount equal to 14% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (30th) fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderated Income Housing fund has been deducted;

(d) the City may elect to receive a portion of the tax increment generated in (a) above, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted; and

(e) the Agency may subordinate the amount required to be paid to an affected tax entity to any indebtedness after receiving the consent of the taxing entity.

The Agency has subordinated amounts required to be paid pursuant to AB 1290.

Low-and-Moderate Income Housing Fund

Under Section 33334.2 of the Redevelopment Law, redevelopment agencies in California are generally required, unless certain annual findings are made, to set aside 20% of all tax increments allocated annually in a Low-and-Moderate Income Housing Fund (the "Housing Set-Aside Fund") to be used within the jurisdiction of the Agency to increase and improve the supply of low-and-moderate income housing. However, as provided in Section 33334.6, for project areas (or portions thereof) established prior to January 1, 1977, a redevelopment agency may defer its low-and-moderate income housing deposit requirement in any fiscal year that the agency finds that the deferral is necessary to make payments on "existing obligations". Existing obligations include any loan, advance or indebtedness (whether funded, refunded, assumed or otherwise) incurred by a redevelopment agency to finance or refinance, in whole or in part, any

redevelopment project existing on, and created prior to, January 1, 1986, and contained on the statement of existing obligations of the agency.

As of June 30, 2007, the Agency's Housing Set-Aside Fund had a balance of \$2,332,568. The agency annually sets aside 20% of the adjusted gross tax increment revenues received in the Housing Set Aside Fund. The portion of adjusted gross tax increment revenues set aside in the Housing Set Aside Fund each year is not pledged to the repayment of the Bonds.

BONDOWNERS' RISKS

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

Reduction in Taxable Value

Tax Increment Revenues are determined in part by the amount that the assessed valuation of property in the Project Area exceeds the base year assessed valuation for such property, as well as by the current rate at which property in the Project Area is taxed. The Agency itself has no taxing power with respect to property, nor does it have the authority to affect the rate at which property is taxed. Assessed valuation of taxable property within the Project Area may be reduced by economic factors beyond the control of the Agency or by, certain events, such as a relocation by one or more major property owners out of a project area, or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood, fire or other natural disaster, which could cause a reduction in the Tax Increment Revenues securing the Bonds. Assessed valuation or tax revenues allocated to the Agency can also be reduced as a result of actions of the California Legislature or the electorate. Any reduction of assessed valuations could result in a reduction of the Tax Increment Revenues, which in turn could impact the ability of the Agency to make payments of principal of and/or interest on the Bonds when due.

Levy and Collections

Neither the Agency nor the Authority has any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Increment Revenues and, accordingly, could have an adverse impact on the ability of the Agency to pay debt service on the Bonds. Similarly, substantial delinquencies in the payment of property taxes by the owners of taxable property within the Project Area could also have an adverse effect on the ability of the Agency to make payments of principal of and/or interest on the Bonds when due.

The present policy of the County Auditor-Controller's office is to provide for distribution of redevelopment tax increment to the Agency based upon the equalized roll and not upon actual collections. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – County of Contra Costa Tax Loss Reserve Fund (Teeter Plan)." Although the County has stated that there

are no plans or discussions to change the existing distribution policy, no assurance can be given that this policy will not be modified by the County in the future.

Reduction in Inflationary 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 inflationary 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 or comparable local data. Such measure is computed on a calendar year basis. Such a reduction could lower the tax increment revenues available to the Agency for payment of the Bonds.

Certain Assumptions

In order to estimate the total revenues available to pay debt service on the Bonds, the Agency has made certain assumptions. The Agency believes these assumptions to be reasonable, but to the extent tax increment revenues are less than anticipated, the total revenues available to pay debt service on the Bonds may be less than those projected herein. The Agency has based its projections upon current assessed values within the Project Area as shown on the records of the County, the estimated value of projects based on its own analysis and has applied an annual inflation factor of 2% thereto.

Geologic, Topographic and Climatic Condition

The market value of the land and improvements within the Project Area can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements of the parcels and the continued habitability and enjoyment of such public and private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods) and climatic conditions (such as droughts and fire hazard).

The seismic risks to a structure are dependent upon several factors, including: the distance of the structure from the fault, the character of the earthquake, the nature of construction, and the geologic conditions underlying a structure. Ground surface rupture tends to occur along lines of previous faulting, where fault displacement intersects the ground surface. Displacement may either occur suddenly during an earthquake or it may occur slowly as the fault “creeps” over a long period of time. The City has experienced earthquakes with an epicenter within the San Francisco Bay area including the Loma Prieta earthquake on October 17, 1989, which measured 7.1 magnitude. Some potential for ground rupture exists in the Project Area. The Agency cannot predict what the impact of seismic activity on existing development within the Project Area.

Earthquake insurance is available, but many property owners elect not to purchase it. Damage or destruction to property within the Project Area caused by earthquake or other natural disasters could result in the failure of the owner of property within the Project Area to pay the tax levy and could result in a significant reduction in the value of property within the District, with no source of funds for reconstruction.

Bondowners' Risks After the Effective Date

Only after the Effective Date (which is the date that no Series 2002 Bonds remain Outstanding or of receipt of consent of the bond insurer for the Series 2005 Bonds and 100% of the holders of the Series 2002 Bonds), certain provisions amending the Indenture will become effective that permit the Agency to issue Parity Obligations in form of Hedged Bonds. "Hedged Bonds" means Bonds issued under the Indenture, as amended by the provisions taking effect after the Effective Date, as Variable Rate Indebtedness for which a Qualified Swap Agreement has been entered into under which all of the following apply: (a) the term of the Qualified Swap Agreement is coterminous with the maturity of the Hedged Bonds, (b) the initial notional amount of the Qualified Swap Agreement is equal to the initial principal amount of the Hedged Bonds and the notional amount of the Qualified Swap Agreement reduces at the same times and in the same amounts as the scheduled payment of principal (whether at maturity or as a result of mandatory sinking account redemption) of the Hedged Bonds, (c) the Agency's payment obligations under the Qualified Swap Agreement are based upon a fixed interest rate for the term thereof, and (d) the counterparty's payment obligations under the Qualified Swap Agreement are not expected to deviate from the interest payments on the Hedged Bonds by more than 25 basis points as certified by the counterparty at the time of entering into the Qualified Swap Agreement.

If the Agency should issue Hedged Bonds on a parity basis with the Series 2008 Bonds pursuant to the Indenture provisions described above, owners of the Series 2008 Bonds would be exposed to the following additional risks: (a) under certain circumstances, including but not limited to the termination of the Credit Facility entered into with respect to such Hedged Bonds or termination of the Credit Provider's obligation, Hedged Bonds issued as Variable Rate Indebtedness could be subject to acceleration, tender or early redemption where sufficient funds may not be available therefore ; (b) certain circumstances, including but not limited to the bankruptcy of the counterparty to a Qualified Swap Agreement entered into in connection with such Hedged Bonds, could cause the early termination of the Qualified Swap Agreement, and such early termination could cause the Agency to forego anticipated Net Payments, resulting in a unhedged exposure of the Agency to increasing interest rates and a corresponding decrease in debt service coverage for the Series 2008 Bonds; and (c) the counterparty's payment obligations under the Qualified Swap Agreement entered into in connection with such Hedged Bonds could deviate from the interest payments on the Hedged Bonds by more than 25 basis points which could result in a reduction in the coverage for the debt service on the Series 2008 Bonds.

For additional conditions relating to the issuance of Hedged Bonds, including the definitions of the capitalized terms used above, see "APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Definitions" and "— Amendments to Take Effect on the Effective Date Only".

THE AGENCY

The Agency was established pursuant to the Redevelopment Law and is charged with the authority and responsibility of redeveloping and improving blighted areas of the City.

The Agency was created by the City Council Ordinance No. 126, adopted on May 1, 1974. The Agency was established pursuant to the Community Redevelopment Law of California. The Redevelopment Plan was adopted by the Agency on December 27, 1994. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition.

Agency Powers and Duties

All powers of the Agency are vested in five members who are also members of the City Council. The 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 and the right to issue bonds and expend the proceeds thereof. The 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 streets, highways, and sidewalks to be constructed or reconstructed and public utilities to be installed.

The 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 a project area and no other reasonable means of financing are available.

Organization

The City Council serves as the Board of Directors of the Agency. The City of Lafayette was incorporated as a general law city in 1968. The City operates under a council-manager form of government. The five Council Members are elected at large for staggered four-year terms.

The Executive Director/City Manager is appointed by the Agency/Council and serves at the Board’s/Council’s pleasure as the administrative head of the Agency and the City. The Executive Director/City Manager is responsible for appointment of all Agency and City employees except the Agency/City Attorney, who is appointed directly by the Board/Council.

Members of the Board, and their term of office are shown below:

Member	Position	Term Expires (December)
Mike Anderson	Chairman	2008
Don Tatzin	Vice Chairman	2010
Brandt Andersson	Board Member	2010
Carol Federighi	Board Member	2008
Carl Anduri	Board Member	2008

Senior Staff of the Agency/City include:

Steven Falk, City Manager of the City and Executive Director of the Agency since 1996. Prior to his current role, Mr. Falk served as Assistant City Manager of the City from 1990 to

1996, and as a Senior Policy Analyst for San Francisco International Airport from 1988 to 1990. Mr. Falk holds a Master's degree in Public Policy from the John F. Kennedy School of Government, Harvard University and a Bachelor of Arts in economics and history from Reed College.

Tracy Robinson, Administrative Services Director of the Agency since 2000. Prior to her current role, Ms. Robinson served as a Budget Analyst and Information Services Manager for World Savings & Loan from 1987 to 2000. Ms. Robinson holds a Master's degree in Business Administration from University of California at Davis and a Bachelor of Arts in molecular biology from University of California at Berkeley.

Financial Information

Included in this Official Statement as Appendix C are the audited financial statements of the Agency for the Fiscal Year ended June 30, 2007.

Pass Through Agreements

The Agency is not currently party to any pass through agreements, however it is subject to ordinary pass through payments pursuant to Redevelopment Law. See "FACTORS AFFECTING TAX ALLOCATION FINANCING - AB 1290, AB 1320 and SB 211" above.

County Settlement Agreement

On January 9, 1996, the Agency and the County entered into a settlement agreement entitled Agreement (Settlement and Release of Claims) (the "County Agreement"), which settled an action which had been filed by the County in Contra Costa County Superior Court seeking to invalidate the Redevelopment Plan. Under the County Agreement, among other things, the Agency agreed to the following provisions:

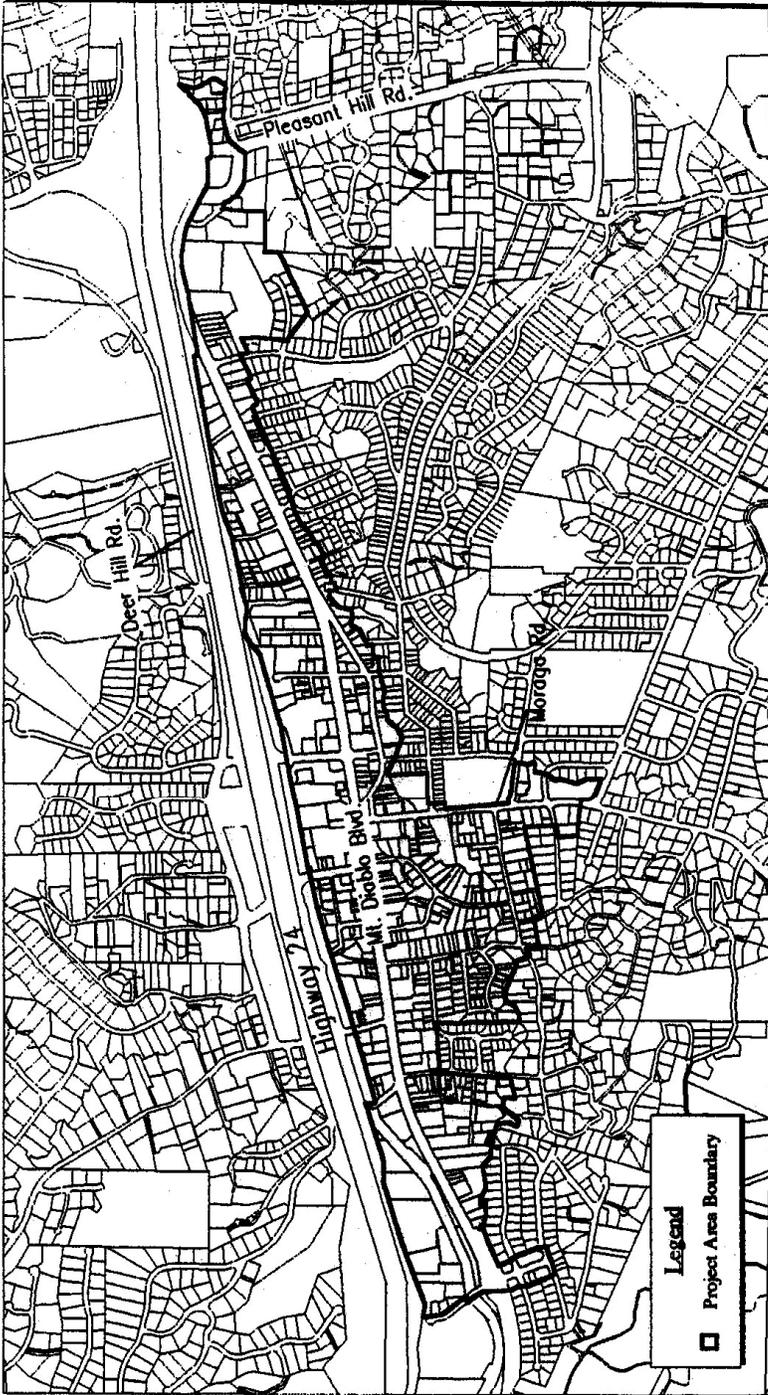
Limit on Tax Increment Revenues. The Agency agreed that it would not accept "Countable Tax Increment Revenue" during the life of the Redevelopment Plan in excess of a cumulative total of \$75 million. "Countable Tax Increment Revenue" consists of property taxes paid to the Agency pursuant to the Redevelopment Law and the Redevelopment Plan or with respect to or generated from property in the area governed by the Redevelopment Plan and amounts paid to the Agency for stated reimbursement for homeowner property tax exemptions pursuant to the provisions of Revenue and Taxations Code Sections 95(c) and 218 and any successor provisions to those sections. Pursuant to the County Agreement "Countable Tax Increment" may not be reduced by reason of payments by the Agency to the County or other taxing agencies pursuant to Health and Safety Code Sections 3445, 33607.5 or any other current or future provision of law or payments by the Agency to its Low and Moderate Income Housing Fund pursuant to Health and Safety code Section 33334.2 and 33334.3 or any successor or similar provision of law. Pursuant to the County Agreement, "Countable Tax Increment Revenue" does not include tax increment revenues as may be derived from areas added to the area governed by the Redevelopment Plan pursuant to amendments to the Redevelopment Plan subsequent to the execution of the County Agreement, or an amount equal to that amount, if any, as may be expended by the Agency, for improvements to one or more of the Library, fire stations

located within the corporate limits of the City, or such other facilities as may be designated by the Agency of the City and the County as mutually acceptable projects.

Special Needs Housing. The Agency agrees to obtain construction, rehabilitation, or other provision of not less than 20 new or existing units of affordable Special Needs Housing for disabled persons who are not dangerous to the health and safety of others and who are mentally disabled or impaired or are affected by physical disabilities or impairments, or by other limitations which the Agency and County may mutually deem appropriate for inclusion. The Agency is permitted to use a portion of its Low and Moderate Income Housing Fund to defray the direct and indirect costs of such Special Needs Housing.

Purchase of Library. The Agency agrees to purchase from the County the Lafayette Branch Building of the Contra Costa County Library (the "Library Property") on or before June 30, 2011, at the fair market value as of the time of purchase. Moneys received by the County from the purchase of the Library Property transaction will be expended on mutually agreed Lafayette Library uses. Pursuant to the County Agreement, if the Library Property is still being used as a public library at the time the County conveys it to the Agency, then the County and the Agency agree to enter into an agreement providing for the County to operate a public library on the Library Property on such terms as the parties agree subject to certain limitations. If, after purchasing the Library Property, the Agency sells the Library Property, moneys received from such transaction must be expended on mutually agreed Lafayette library uses.

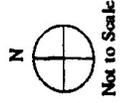
PROJECT AREA MAP



Source: Urban Futures, Inc. (8/22/94)

Redevelopment Project Area Map

Lafayette
Redevelopment
Project



Prepared By:
Urban Futures, Inc.
3111 N. Tustin Ave., Ste. 230
Orange, CA 92665

Not to Scale

THE LAFAYETTE REDEVELOPMENT PROJECT AREA

Background, Location and Land Use

The Project Area generally consists of the downtown area of the City and is mostly characterized by commercial and multi-family residential development. The distribution of developed and undeveloped areas in the Project Area by land use is set forth below:

TABLE 1
LAFAYETTE REDEVELOPMENT PROJECT AREA
Assessed Valuation and Parcels by Land Use

	2008-09 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial	\$361,643,844	55.08%	261	35.85%
Vacant Commercial	4,109,503	0.63	13	1.79
Industrial	11,120,732	1.69	3	0.41
Recreational	1,440,495	0.22	2	0.27
Government/Social/Institutional	5,017,556	0.76	24	3.30
Miscellaneous	6,860,707	1.04	32	4.40
Subtotal Non-Residential	\$390,192,837	59.43%	335	46.02%
Residential:				
Single Family Residence	\$40,949,350	6.24	98	13.46
Condominium/Townhouse	58,429,731	8.90	170	23.35
2-4 Residential Units	29,937,404	4.56	64	8.79
5+ Residential Units/Apartments	137,079,888	20.88	60	8.24
Vacant Residential	20,000	0.00	1	0.14
Subtotal Residential	\$266,416,373	40.57%	393	53.98%
Total	\$656,609,210	100.00%	728	100.00%

⁽¹⁾ Local Secured Assessed Valuation; excluding tax-exempt property.

Source: *California Municipal Statistics, Inc.*

Since the adoption of the Redevelopment Plan in 1994, the total taxable valuation in the Project Area has increased from the base year (1994-1995) value of \$331,871,939* to approximately \$694,327,026 by 2008-09. This represents an increase of approximately 110% or an average annual growth rate of approximately 8%. See Table 4 herein for details.

Property Ownership

According to records of the County, the combined secured assessed valuation of the top 20 property owners in the Project Area in 2008-09 equaled \$240,513,943 or 36.63% of total secured assessed value (excluding supplemental assessments) for the Project Area. Table 2 sets forth the ranking, by secured assessed value, of these property owners.

* Note, the initial base year value was adjusted in fiscal year 2003-04. See the note to Table 4.

TABLE 2
LAFAYETTE REDEVELOPMENT PROJECT AREA
Largest 2008-09 Local Secured Taxpayers

	Property Owner	Land Use	2008-09 Assessed Valuation	% of Total ⁽¹⁾
1.	Bascom Lafayette Highlands LLC	Apartments	\$ 30,745,292	4.68%
2.	Lafayette Park Hotel Associates	Hotel	19,318,220	2.94
3.	Cortese Properties LLC / Cortese Real Property LP	Commercial	19,045,729	2.90
4.	Realty Associates Fund VI LP	Office Building	17,151,133	2.61
5.	Bay Glen LP	Apartments	15,871,957	2.42
6.	Desco Plaza I LLC & Investment LLC	Office Building	12,650,000	1.93
7.	KMF Contra Costa LLC	Apartments	12,265,348	1.87
8.	Gray Horse Investors	Office Building	11,576,806	1.76
9.	Lafayette Terrace LLC	Office Building	11,067,866	1.69
10.	Standford & Jeanette White	Industrial	9,599,545	1.46
11.	Constantine Christopoulos	Commercial	9,254,593	1.41
12.	Lemana	Office Building	9,100,271	1.39
13.	Joan E. Bruzzone	Shopping Center	8,395,493	1.28
14.	Oak Hill West Realty LLC	Office Building	8,354,956	1.27
15.	Hegenberger Land Inc.	Office Building	8,323,200	1.27
16.	Mt. Diablo Palo Verde LLC	Apartments	7,783,497	1.19
17.	Merrill Gardens at Lafayette	Commercial	7,690,542	1.17
18.	WSA Village Green LLC	Office Building	7,498,019	1.14
19.	3483 Golden Gate Way LLC	Office Building	7,492,778	1.14
20.	D Diablo LLC	Commercial	7,328,698	1.12
			\$240,513,943	36.63%

⁽¹⁾2008-09 Local Secured Assessed Valuation: \$656,609,210

Source: California Municipal Statistics, Inc.

Tax Rate

The tax rate assessed within the Project Area during 2008-09 was 1.0981%.

Assessment Appeals

Pursuant to California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board.

After the applicant and the county assessor have presented their arguments, the assessment appeals board will make a final decision of the proper assessed value. The assessment appeals board may rule in the county assessor's favor, may rule in the applicant's favor, or may set its own opinion of the proper assessed value, which may be more or less than either the county assessor's opinion or the applicant's opinion.

Any reduction in the assessment ultimately granted applies to the year for which application is made and during which the written application is filed. The assessed value may be increased to its prereduction level for fiscal years following the year for which the reduction application is filed as the real estate market recovers.

Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year

is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

**TABLE 3
LAFAYETTE REDEVELOPMENT PROJECT AREA
Incremental Assessed Value**

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Secured Value	\$443,324,554	\$465,807,196	\$500,201,044	\$557,828,158	\$611,251,526	\$656,609,210
Unsecured Value	36,504,517	35,839,727	38,469,719	41,670,759	35,173,302	37,717,816
Utility Roll	-	-	-	-	-	-
Total Assessed Value	479,829,071	501,646,923	538,670,763	\$599,498,917	\$646,424,828	694,327,026
Less: Base Year Value	(332,248,715)*	(332,248,715)	(332,248,715)	(332,248,715)	(332,248,715)	(332,248,715)
Incremental Assessed Value	\$147,580,356	\$169,398,208	\$206,422,048	\$267,250,202	\$314,176,113	\$362,078,311

* Note, for fiscal years 2003-04 and thereafter, the County Auditor-Controller increased the Agency's base year value for the Lafayette Redevelopment Project Area from \$331,871,939 to \$332, 248,715.

Source: County of Contra Costa

**TABLE 4
LAFAYETTE REDEVELOPMENT PROJECT AREA
Historical Valuations and Tax Revenues**

Fiscal Year	Total Valuation	% Change	Base Year	Incremental Valuation	Gross Tax Increment Revenues	% Change
1994-1995	\$331,871,939					
1995-1996	332,213,008	0.10%	\$331,871,939	\$ 341,069	\$ 13,983	
1996-1997	337,914,432	1.72	331,871,939	6,042,493	74,370	432%
1997-1998	337,228,385	-0.20	331,871,939	5,356,446	91,266	23
1998-1999	353,792,684	4.91	331,871,939	21,920,745	262,781	188
1999-2000	373,561,119	5.59	331,871,939	41,689,180	539,629	105
2000-2001	403,683,530	8.06	331,871,939	71,811,591	833,195	54
2001-2002	430,188,978	6.57	331,871,939	98,317,039	1,127,366	35
2002-2003	457,217,163	6.28	331,871,939	125,345,224	1,435,999	27
2003-2004	479,829,071	4.95	332,248,715*	147,580,356	1,842,737	28
2004-2005	501,646,923	4.55	332,248,715	169,398,208	1,860,124	1
2005-2006	538,670,763	7.38	332,248,715	206,422,048	2,266,675	22
2006-2007	599,498,917	11.29	332,248,715	267,250,202	2,934,615	29
2007-2008	646,424,828	7.83	332,248,715	314,176,113	3,449,898	18
2008-2009	694,327,026	7.41	332,248,715	362,078,311	3,975,901	15

* Note, for fiscal years 2003-04 and thereafter, the County Auditor-Controller increased the Agency's base year value for the Lafayette Redevelopment Project Area from \$331,871,939 to \$332, 248,715.

Source: County of Contra Costa

TABLE 5
LAFAYETTE REDEVELOPMENT PROJECT AREA
Projected Gross Tax Increment Revenues and Tax Revenues

Fiscal Year	Estimated Assessed Value⁽¹⁾	Projected Incremental Value	Projected Gross Tax Increment Revenues⁽²⁾	Projected Gross Tax Revenues to Agency⁽³⁾
2009-2010	\$716,213,567	\$383,964,852	\$3,839,649	\$2,620,280
2010-2011	730,537,838	398,289,123	3,982,891	3,022,571
2011-2012	745,148,595	412,899,880	4,128,999	3,135,332
2012-2013	782,406,024	450,157,309	4,501,573	3,250,348
2013-2014	821,526,326	489,277,611	4,892,776	3,543,638

⁽¹⁾ Assuming 2% growth in assessed value through 2012, and 5% thereafter. Also includes \$8 million in assessed value which will be coming onto the tax roll in FY 2009-10 from the completion of the Lafayette Mercantile.

⁽²⁾ Revenues based on 1% tax rate.

⁽³⁾ Less Housing Set Aside, County Administration and ERAF transfers.

Source: Piper Jaffray & Co.

TABLE 6
LAFAYETTE REDEVELOPMENT PROJECT AREA
Annual Debt Service Requirements for the Bonds

Year (August 1)	Series 2008 Bonds Principal	Series 2008 Bonds Interest	Series 2008 Bonds Total	Prior Bonds Debt Service	Total
2009	-	\$430,250	\$430,250	\$1,133,169	\$1,563,419
2010	-	598,031	598,031	1,147,041	1,745,073
2011	\$45,000	598,031	643,031	1,144,774	1,787,805
2012	100,000	596,344	696,344	1,146,324	1,842,668
2013	105,000	592,344	697,344	1,146,876	1,844,220
2014	105,000	587,829	692,829	1,149,529	1,842,358
2015	110,000	583,104	693,104	1,149,779	1,842,883
2016	115,000	577,824	692,824	1,148,879	1,841,703
2017	125,000	572,189	697,189	1,149,059	1,846,248
2018	130,000	565,814	695,814	1,147,989	1,843,803
2019	140,000	558,989	698,989	1,145,336	1,844,325
2020	145,000	551,289	696,289	1,146,295	1,842,584
2021	155,000	543,024	698,024	1,145,945	1,843,969
2022	160,000	534,034	694,034	1,148,960	1,842,994
2023	175,000	524,594	699,594	1,145,505	1,845,099
2024	185,000	514,269	699,269	1,145,805	1,845,074
2025	190,000	503,169	693,169	1,149,088	1,842,256
2026	205,000	491,294	696,294	1,145,463	1,841,756
2027	220,000	478,481	698,481	1,144,963	1,843,444
2028	230,000	464,731	694,731	1,147,660	1,842,391
2029	245,000	450,356	695,356	1,148,320	1,843,676
2030	260,000	435,044	695,044	1,146,943	1,841,986
2031	275,000	418,469	693,469	1,148,475	1,841,944
2032	295,000	400,938	695,938	1,146,063	1,842,000
2033	315,000	382,131	697,131	1,146,250	1,843,381
2034	335,000	362,050	697,050	1,146,750	1,843,800
2035	355,000	340,275	695,275	1,149,750	1,845,025
2036	1,525,000	317,200	1,842,200	-	1,842,200
2037	1,625,000	218,075	1,843,075	-	1,843,075
2038	1,730,000	112,450	1,842,450	-	1,842,450

TABLE 7
LAFAYETTE REDEVELOPMENT PROJECT AREA
Direct and Overlapping Debt
(as of November 1, 2008)

2008-09 Assessed Valuation: \$694,327,026
 Base Year Valuation: 332,248,715
 Incremental Valuation: \$362,078,311

<u>DIRECT DEBT:</u>	<u>% Applicable</u>	<u>Debt 11/1/08</u>	
2002 Tax Allocation Bonds	100. %	\$ 5,145,000	(1)
2005 Tax Allocation Bonds	100.	<u>11,600,000</u>	
TOTAL DIRECT DEBT		\$16,745,000	

Ratio to Incremental Valuation: 4.62%

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u> ⁽²⁾	<u>Debt 11/1/08</u>
Bay Area Rapid Transit District	0.135%	\$ 595,836
Contra Costa Community College District	0.412	725,326
Acalanes Union High School District	2.864	3,086,050
Lafayette School District	11.289	2,534,381
City of Lafayette	12.652	1,124,130
East Bay Regional Park District	0.193	<u>244,821</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$8,310,544

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Contra Costa County General Fund Obligations	0.240%	\$ 719,952
Contra Costa County Pension Obligations	0.240	1,183,164
Contra Costa Community College District Certificates of Participation	0.241	2,675
Contra Costa County Fire Protection District Pension Obligations	0.532	<u>656,834</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$2,562,625

COMBINED TOTAL DIRECT AND OVERLAPPING DEBT \$27,618,169 ⁽³⁾

⁽¹⁾ Excludes tax allocation bonds to be sold.

⁽²⁾ Based on 2007-08 ratios.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations

Ratios to 2008-09 Assessed Valuation:

Combined Total Direct and Overlapping Debt..... 3.98%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$0

Source: California Municipal Statistics, Inc.

TABLE 8
LAFAYETTE REDEVELOPMENT PROJECT AREA
Projected Debt Service Requirements and Coverage for the Bonds
(2008-09 to 2012-13)

Year Ending August 1:	2009	2010	2011	2012	2013
Projected Pledged Tax Revenues ⁽¹⁾	\$2,620,280	\$3,022,571	\$3,135,332	\$3,250,348	\$3,543,638
Series 2002 Debt Service	399,268	394,380	399,263	398,513	397,403
Series 2005 Debt Service	733,901	752,661	745,511	747,811	749,474
Projected Series 2008 Debt Service ⁽²⁾	193,613	598,031	643,031	696,344	697,344
<i>Total Parity Debt Service</i>	<u>\$1,326,781</u>	<u>\$1,745,073</u>	<u>\$1,787,805</u>	<u>\$1,842,668</u>	<u>\$1,844,220</u>
Debt Service Coverage ⁽³⁾	197%	164%	161%	156%	156%
Debt Service Coverage ⁽⁴⁾	197%	173%	175%	176%	192%

⁽¹⁾ Assuming 2% growth in assessed value after 2008-09.

⁽²⁾ Assuming partial capitalized interest through August 1, 2009.

⁽³⁾ Assuming no growth in assessed value.

⁽⁴⁾ Assuming growth in assessed value as stipulated in table 5.

Source: Piper Jaffray & Co.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Agency (“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 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 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 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 Bonds is the first price at which a substantial amount of such maturity of the 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 Bonds accrues daily over the term to maturity of such 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 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such

Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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 Bonds. The Agency has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 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 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 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 Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 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 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 legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state 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 legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, 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 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 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 Agency has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the Agency or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the 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 Agency legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 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 Bonds, and may cause the Agency or the Beneficial Owners to incur significant expense.

THE AUTHORITY

The City of Lafayette Public Facilities Financing Authority was created by a Joint Exercise of Powers Agreement, dated as of February 1, 2002, between the City and the Agency. The agreement was entered into pursuant to the provisions of Articles 1, 2, and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The Authority was created pursuant to Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”) and has the power to exercise any powers common to the City and the Agency and to exercise additional powers granted to it under the Act. Under JPA Law, the Authority has the power to purchase bonds issued by a local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Series 2008 Bonds are being issued for sale to the Authority and will be resold by the Authority to the Underwriter.

LEGAL MATTERS

Legal Opinions

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

No Litigation

To the best knowledge of the Agency, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Agency to restrain or enjoin the authorization, execution or delivery of the Bonds or the Indenture, or the pledge of the Tax Increment Revenues or the collection of the payments to be made pursuant to the Indenture, or in any way contesting or affecting the validity of the Bonds or the Indenture.

Continuing Disclosure

The Agency has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the

“Annual Report”) by not later than nine months following the end of the City’s fiscal year (currently ending June 30), commencing with the report for the 2008-09 Fiscal Year, which is due no later than April 1, 2009, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City 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 Agency with each Nationally Recognized Municipal Securities Information Repository or 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 summarized in “APPENDIX E: FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Agency has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

MISCELLANEOUS

Rating

Standard & Poor’s Ratings Service, a division of the McGraw Hill Companies Inc., has given the Bonds the rating of “A”. The rating reflects only an opinion of the agency furnishing the same. There is no assurance that such rating will be in effect for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. An explanation of the significance of such rating may be obtained only from the rating agency furnishing the same.

Underwriting

The Bonds will be sold to the Authority and concurrently resold by the Authority to Piper Jaffray & Co., as underwriter (the “Underwriter”), under a bond purchase agreement among the Agency, the Authority and the Underwriter (the “Bond Purchase Agreement”), pursuant to which the Underwriter agrees to purchase all of the Bonds for an aggregate purchase price of \$9,267,682.05 (calculated as the principal amount of the Bonds (\$9,600,000.00), minus original issue discount (\$241,117.95), less underwriter’s discount (\$91,200.00)).

The initial public offering prices to be stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell Bonds to certain dealers, dealer banks, banks acting as agents and others at prices lower than said public offering prices.

Miscellaneous

All of the preceding summaries of the Indenture, the Redevelopment Law, other applicable legislation, the Redevelopment Plan for the Project Area, 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 Agency for further information in connection therewith. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Official Statement does not constitute a contract with the purchasers of the Bonds.

Authorization

The execution and delivery of this Official Statement by its Executive Director have been duly authorized by the Agency.

REDEVELOPMENT AGENCY OF
THE CITY OF LAFAYETTE

By: /s/ Steven Falk
Executive Director

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture and is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement. This summary is not intended to be definitive. Reference is made to the Indenture for the complete text thereof. Copies of the Indenture are available from the Agency.

DEFINITIONS

Accreted Value. The term “Accreted Value” means, with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond, plus interest accrued thereon from its date compounded on each February 1 and August 1 (through and including the maturity date of such Bond) at the “original issue yield” for such Bond; provided, that the Accreted Value on any date other than February 1 and August 1 will be calculated by straight line interpolation of the Accreted Values as of the immediately preceding and succeeding February 1 and August 1. The term “original issue yield” means, with respect to any particular Bond, the yield to maturity of such Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each February 1 and August 1.

Additional Bonds. The term “Additional Bonds” means all tax allocation bonds of the Agency authorized and executed pursuant to the Indenture and issued and delivered in accordance with Article IV of the Indenture and subsequent to the Series 2002 Bonds and the Series 2005 Bonds.

Agency. The term “Agency” means the Redevelopment Agency of the City of Lafayette, a public body, corporate and politic, duly organized and existing under and pursuant to the Law.

Annual Debt Service. The term “Annual Debt Service” means, for each Bond Year, the sum of (1) the interest falling due on the Outstanding Bonds which are Current Interest 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 which are Current Interest Bonds, if any, falling due by their terms in such year, (3) the Accreted Value of the Outstanding Serial Bonds which are Capital Appreciation Bonds, if any, falling due by their terms in such year, and (4) the Sinking Account Installments required to be made in such year to pay or redeem Outstanding Term Bonds.

Authority. The term “Authority” means the City of Lafayette Public Facilities Financing Authority established on February 1, 2002 and duly organized and existing under and pursuant to the laws of the State of California and a Joint Exercise of Powers Agreement between the City and the Agency.

Authorized Agency Representative. The term “Authorized Agency Representative” means the Chair of the Agency, the Executive Director of the Agency and any other officer of the Agency duly authorized to act as an Authorized Agency Representative for purposes of the Indenture by the Agency or written authorization of the Chair of the Agency.

Bond Counsel. The term “Bond Counsel” means any attorney at law or firm of attorneys reasonably acceptable to the Trustee, 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.

Bond Insurance Policy. The term “Bond Insurance Policy” means the municipal bond insurance policy, if any, issued by the applicable Bond Insurer and guaranteeing, in whole or in part, the payment of principal of and interest on a Series of Bonds.

Bond Insurer. The term “Bond Insurer” means the issuer or issuers of a policy or policies of municipal bond insurance obtained by the Agency to insure the payment of principal of and interest on a Series of Bonds issued under the Indenture, when due otherwise than by acceleration, and which, in fact, are at any time insuring such Series of Bonds. For the purposes of this definition, all consents, approvals or actions required by the Bond Insurer will be unanimous action of all Bond Insurers if there is more than a single Bond Insurer.

Bond Obligation. The term “Bond Obligation” means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the February 1 or August 1 next preceding such date of calculation (unless such date of calculation is a February 1 or August 1, in which case as of such date).

Bond Year. The term “Bond Year” means any twelve-month period beginning on August 2 in any year and ending on the next succeeding August 1, both dates inclusive, except that the first Bond Year will begin on the Closing Date, and end August 1, 2003; provided that with respect to the Series 2005 Bonds, the first Bond Year will begin on the Closing Date for the Series 2005 Bonds, and end August 1, 2006; and with respect to the Series 2008 Bonds, the first Bond Year will begin on the Closing Date for the Series 2008 Bonds, and end August 1, 2009.

Bondowner, Owner. The term “Owner” or “Bondowner” whenever employed in the Indenture means the person in whose name such Bond will be registered.

Bonds. The term “Bonds” means the Series 2002 Bonds, the Series 2005 Bonds, the Series 2008 Bonds and all Additional Bonds.

Book-Entry Bonds. The term “Book-Entry Bonds” means Bonds of any series registered in the name of the Nominee of a Depository as the owner thereof pursuant to the terms and provisions of the Indenture.

Business Day. The term “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.

Capital Appreciation Bonds. The term “Capital Appreciation Bonds” means Bonds the interest on which is payable at maturity and compounded semiannually on each Interest Payment Date through and including the maturity dates thereof.

City. The term “City” means the City of Lafayette, California, or any successor entity.

Closing Date. The term “Closing Date” means August 20, 2002, the date on which the Series 2002 Bonds are delivered by the Agency to the original purchaser thereof, provided that with respect to the Series 2005 Bonds, “Closing Date” means November 9, 2005, being the date of initial delivery of the Series 2005 Bonds; and with respect to the Series 2008 Bonds, “Closing Date” means November 12, 2008, being the date of initial delivery of the Series 2008 Bonds.

Code. The term “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. The term “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.

Corporate Trust Office. The term “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. The term “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.

County Agreement. The term “County Agreement” means that certain Settlement and Release of Claims Agreement, dated January 9, 1996, among the County of Contra Costa, County of Contra Costa Fire Protection District and County of Contra Costa Flood Control District (collectively referred to therein as the “County”) and the City of Lafayette, City Council of the City of Lafayette and the Lafayette Redevelopment Agency (collectively referred to therein as the “City”).

Current Interest Bonds. The term “Current Interest Bonds” means Bonds the interest on which is payable on February 1 and August 1 of each year through and including the maturity dates thereof.

Depository. The term “Depository” means the securities depository acting as Depository pursuant to the Indenture.

Effective Date. The term “Effective Date” means the earlier of: (i) the first date upon which all of the Outstanding Series 2002 Bonds are no longer Outstanding, or (ii) the first date upon which the Agency has filed with the Trustee the written consents to the amendments set forth in Article XVII of the Indenture of the of the Bond Insurer, if any, and of the Owners of 100% of the Outstanding Series 2002 Bonds, all in accordance with the terms of Article IX of the Indenture.

Expense Fund. The term “Expense Fund” means the fund established pursuant to the Indenture.

Federal Securities. The term “Federal Securities” means: direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody’s (or any combination thereof), or such other securities as may be approved by the Bond Insurer.

Fiscal Year. The term “Fiscal Year” means the period commencing on July 1 of each year after the date of the sale and delivery of the Series 2002 Bonds and terminating on the next succeeding June 30, or any other annual accounting period hereafter selected and designated by the Agency as its Fiscal Year in accordance with the Law and with notice to the Trustee.

First Supplemental Indenture. The term “First Supplemental Indenture” means the First Supplemental Indenture and all Supplemental Indentures supplementing or amending the First Supplemental Indenture.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of August 1, 2002, by and between the Agency and the Trustee, as originally entered into or as it may be amended or supplemented by the First Supplement Indenture, the Second Supplemental Indenture and any Supplemental Indenture entered into pursuant to the provisions thereof.

Independent Certified Public Accountant. The term “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 satisfactory to and approved by the Trustee (who will be under no liability by reason of such approval), 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. The term “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 satisfactory to the Trustee, 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. The term “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 satisfactory to the Trustee, 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. The term “Interest Account” means the account maintained within the Tax Increment Fund pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means any February 1 or August 1 on which interest on any Series of Bonds is scheduled to be paid, commencing February 1, 2003, with respect to the Series 2002 Bonds.

Investment Agreement. The term “Investment Agreement” means an investment agreement or guaranteed investment contract by and between the Trustee and a national or state chartered bank or savings and loan institution (including the Trustee), providing for the investment of moneys held in certain funds or accounts established pursuant to the Indenture.

Information Services. The term “Information Services” means Financial Information, Inc.’s “Daily Called Bond Service”, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 66 Broadway, 16th Floor, New York, New York 10006; Moody’s Investors Service “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; Standard & Poor’s Corporation “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to the redemption of bonds as the Agency may designate in a Written Request of the Agency filed with the Trustee.

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

Letter of Representations. The term “Letter of Representations” means the letter of the Agency and the Trustee delivered to and accepted by the Depository on or prior to the issuance of a series of Book-Entry Bonds (which may include a blanket Letter of Representations for all of the Agency’s Bonds) setting forth the basis on which the Depository serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute depository.

Maximum Annual Debt Service. 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.

Moody’s. The term “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 will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the Agency and approved by the Trustee.

Nominee. The term “Nominee” will mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Outstanding. The term “Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) 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 will have been authorized, executed, issued and delivered by the Agency pursuant to the Indenture.

Permitted Investments. The term “Permitted Investments” means, to the extent permitted by applicable law:

(i) Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

(ii) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) the Export-Import Bank of the United States, (b) the Federal Housing Administration, (c) the Government National Mortgage Association (“GNMA”), (d) the Rural Economic Community Development Administration (formerly known as the Farmers Home Administration), (e) the Federal Financing Bank, (f) the Department of Housing and Urban Development, (g) the General Services Administration, (h) the U.S. Maritime Administration or (i) the Small Business Administration.

(iii) Investments in direct obligations in any of the following agencies which obligations are not fully guaranteed by the full faith and credit of the United States (a) senior obligations by the Federal Home Loan Bank System, (b) senior debt obligations and participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) issued by the Federal Home Loan Mortgage Corporation (“FHLMC”) or senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association (“FNMA”) (c) obligations of the Resolution Funding Corporation (“REFCORP”) or (d) senior debt obligations of the Student Loan Marketing Association (“SLMA”) (excluding securities that do not have a fixed par value/or whose terms do not promise a fixed dollar amount at maturity or call date).

(iv) Investments in (a) U.S. dollar denominated deposit accounts, federal funds, bankers acceptances, and certificates of deposit of any bank whose short term debt obligations are rated A-1+ by S&P and P-1 by Moody’s and maturing no more than 360 calendar days after the date of purchase (holding company ratings are not considered as rating of the bank) or (b) Certificates of deposit of any bank, which certificates are fully insured by the Federal Deposit Insurance Corporation (“FDIC”).

(v) Investments in money market funds rated “AAAm” or “AAAm-G” by S&P.

(vi) Commercial paper which is rated at the time of purchase in the single highest classification, P-1 by Moody’s, Inc. and A-1+ by S&P and which matures not more than 270 calendar days after the date of purchase.

(vii) Pre-refunded municipal obligations defined as follows: any bonds or other obligations rated “AAA” by S&P and “Aaa” by Moody’s (based on an irrevocable escrow account or fund) of any state of the United States of America or 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.

(viii) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A1/A+” or higher by both Moody’s and S&P.

The value of the above investments (paragraphs i-viii) will be determined as follows:

“Value”, which will be determined as of the end of each quarter, means that the value of any investments will be calculated as follows:

(a) for securities:

(1) computed on the basis of the bid price last quoted by the Federal Reserve Bank of New York on the valuation date and printed in the Wall Street Journal or the New York Times; or

(2) a valuation performed by a nationally recognized and accepted pricing service whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(3) the lower of two dealer bids on the valuation date. The dealer or their parent holding companies must be rated at least investment grade by S&P and Moody’s and must be market makers in the securities being valued.

(b) as to certificates of deposit and banker’s acceptances: the face amount thereof, plus accrued interest.

(ix) Repurchase agreements with (a) any domestic bank, or domestic branch of a foreign bank, the long term debt which is rated at least “A” by S&P and “A2” by Moody’s; or (n) 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 “A2” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (c) any other entity rated at least “A” by S&P and “A2” by Moody’s and acceptable to the Series 2005 Bond Insurer, provided that:

(a) the repurchase agreement is collateralized with the obligations described in paragraphs (i) or (ii) above; or with obligations described in paragraph (iii) (a) and (b) above.

(b) the trustee will value the collateral securities at least weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within (2) business days.

(c) the market value of the collateral must be maintained at: 104% of the total principal of the repurchase agreement for obligations described in paragraphs (i) and (ii); 105% of the total principal of the repurchase agreement for obligations described in paragraph (iii) (a) and (b) above.

(d) the trustee or a third party acting solely as agent therefore 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).

(e) the repurchase agreement will state and an opinion of counsel will 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, and substituted collateral and all proceeds thereof.

(f) the repurchase agreement will 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 will give such direction if so directed by the Series 2005 Bond 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.

(x) Investment agreements with (a) a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long term debt of which, or, in the case of a guaranteed corporation the long term debt is rated at least “AA” by S&P and “Aa2” by Moody’s; or (B) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least “AA” by S&P and “Aa2” by Moody’s; provided, that in all cases, by the terms of the investment agreement:

(a) interest payments are to be made to the Trustee at least one business day prior to debt service payment dates on the Bonds and in such amounts as are 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 (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Indenture specifically requires the Agency or the Trustee to give 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 will state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Indenture;

(e) the term of the investment agreement does not exceed seven years or such longer term as approved by the Series 2005 Bond Insurer. An approved investment agreement for the Debt Service Reserve Fund may extend until the maturity for the Bonds;

(f) the Agency or the Trustee receives the opinion of domestic counsel (which opinion will be addressed to the Agency and the Series 2005 Bond 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 Series 2005 Bond Insurer;

(g) the Indenture and investment agreement will provide that if during its term:

(1) the provider's rating by either S&P or Moody's falls below 'AA-' or 'Aa3' respectively, the provider must, at the direction of the Agency or the Trustee (who will give such direction if, but only if, so directed by the Series 2005 Bond Insurer), within 10 days of receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Agency, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") Permitted Collateral which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment (the choice of (i) or (ii) above will be that of the Agency or Trustee, as appropriate), and

(2) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" or "A3" by S&P or Moody's, as appropriate, the provider must, at the direction of the Agency or the Trustee (who will give such direction if, but only if, so directed by the Series 2005 Bond 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;

(h) The investment agreement will state and an opinion of counsel will be rendered that the trustee has a perfected first priority security interest in the Permitted Collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the trustee is in possession); and

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

(1) the provider will default in its payment obligations, the provider's obligations under the investment agreement will, at the direction of the Agency or the Trustee (who will give such direction if so directed by the Series 2005 Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the Agency or Trustee, as appropriate;

(2) the provider will 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 will automatically be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the Agency or Trustee, as appropriate;

(3) the provider fails to perform any of its obligations under the Investment Agreement (other than obligations related to payment or rating) and such breach continues for ten (10) Business Days or more after written notice thereof is given by the Trustee to the provider, it will be an Event of Default; or

(4) a representation or warranty made by the provider proves to have been incorrect or misleading in any material respect when made, it will be an Event of Default

Permitted Collateral for Investment Agreements ("Permitted Collateral"):

A. U.S. direct Treasury obligations,

B. Senior debt and/or mortgage backed obligations of GNMA, FNMA or FHLMC and other government sponsored agencies backed by the full faith and credit of the U.S. government and approved by the Series 2005 Bond Insurer.

C. Collateral levels must be 104% of the total principal deposited under the investment agreement for U.S. direct Treasury obligations, GNMA obligations and full faith and credit U.S. government obligations and 105% of the total principal deposited under the investment agreement for FNMA and FHLMC.

D. The collateral must be held by a third party, segregated and marked to market at least weekly.

(xi) Forward delivery agreements approved in writing by the Series 2005 Bond Insurer (supported by appropriate opinions of counsel).

(xii) Other forms of investments approved in writing by the Series 2005 Bond Insurer.

Principal Account. The term “Principal Account” means the account maintained within the Tax Increment Fund pursuant to Section 5.06 of the Indenture.

Principal Installment. The term “Principal Installment” means, with respect to any Principal Payment Date, the principal amount of Outstanding Series 2002 Bonds (including mandatory sinking fund payments) due on such date, if any.

Principal Payment Date. The term “Principal Payment Date” means any August 1 on which principal or Accreted Value of any Series of Bonds is scheduled to be paid, commencing on August 1, 2003 with respect to the Series 2002 Bonds, commencing on August 1, 2008 with respect to the Series 2005 Bonds and commencing August 1, 2011 with respect to the Series 2008 Bonds.

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

Project Area. The term “Project Area” means the territory comprising the Agency’s Lafayette Redevelopment Project, as described in the Redevelopment Plan.

Rating Agency. The term “Rating Agency” means, as of any time and to the extent it is then providing or maintaining a rating on the Bonds or any other obligations hereunder at the request of the Agency, each of Moody’s, Standard & Poor’s or Fitch, or in the event that neither Moody’s, Standard & Poor’s or Fitch then maintains a rating on the Bonds or any other obligations hereunder at the request of the Agency, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds or any other obligations hereunder at the request of the Agency.

Rebate Fund. The term “Rebate Fund” means the Rebate Fund established pursuant to Section 6.16 of the Indenture.

Rebate Instructions. The term “Rebate Instructions” means those calculations and directions required to be delivered to the Trustee by the Agency pursuant to the Tax Certificate.

Rebate Requirement. The term “Rebate Requirement” means the Rebate Requirement defined in the Tax Certificate.

Redevelopment Fund. The term “Redevelopment Fund” means the fund by that name established pursuant to the Indenture.

Redevelopment Plan. The term “Redevelopment Plan” means the redevelopment plan for the Lafayette Redevelopment Project Area of the Agency in Lafayette, California, adopted and approved as the Redevelopment Plan for the Project by Ordinance No. 437, adopted by the City Council of the City of Lafayette, California on December 27, 1994, together with all further amendments to the Indenture made in accordance with the Law and the Resolution.

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

Reserve Account. The term “Reserve Account” means the account maintained within the Tax Increment Fund pursuant to the Indenture.

Reserve Account Requirement. The term “Reserve Account Requirement” means an amount equal to the Maximum Annual Debt Service on the Bonds, less a principal amount of Term Bonds of any maturity, the proceeds of which were initially deposited into an escrow fund (to be held by the Trustee) equal, at any point in time, to the deposit in such escrow fund; provided, that the Reserve Account Requirement will not be adjusted because of any such deposit into an escrow fund unless as a condition to and following any release of moneys from such escrow fund, the Reserve Account Requirement will be satisfied. In the event the Reserve Account Requirement is less than Maximum Annual Debt Service by reason of the deposit of amounts in an escrow fund, as described above, such Reserve Account Requirement will be established by a Consultant’s Report which will assume a reduction in the Sinking Account Installment payments for each maturity of Term Bonds the proceeds of which were so deposited in an escrow fund (in an amount equal to the amount attributable to each such maturity of Term Bonds remaining in the escrow fund), which, to the extent practicable, results in approximately equal annual debt service on the Bonds Outstanding assuming such reduction in Sinking Account Installment payments.

Responsible Officer. The term “Responsible Officer” means any Vice-President, Assistant Vice President or Trust Officer of the Trustee having regular responsibility for corporate trust matters.

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

Second Supplemental Indenture. The term “Second Supplemental Indenture” means the Second Supplemental Indenture and all Supplemental Indentures supplementing or amending the Second Supplemental Indenture.

Securities Depositories. The term “Securities Depositories” means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 277-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Pacific Securities Depository Trust Company, Pacific and Company, P.O. Box 7041, San Francisco, California, 94120, Fax - (415) 393-4128; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Dex-(215) 496-5058; or, in accordance with the then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories as the Agency may designate.

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

Series 2002 Bonds. The term “Series 2002 Bonds” means the Redevelopment Agency of the City of Lafayette, Lafayette Redevelopment Project Area Tax Allocation Bonds, Series 2002.

Series 2005 Bonds. The term “Series 2005 Bonds” means the Redevelopment Agency of the City of Lafayette, Lafayette Redevelopment Project Tax Allocation Bonds, Series 2005 issued and delivered in accordance with Article IV of the Indenture and the First Supplemental Indenture dated as of October 1, 2005.

Series 2008 Bonds. The term “Series 2008 Bonds” means the Redevelopment Agency of the City of Lafayette, Lafayette Redevelopment Project Tax Allocation Bonds, Series 2008 issued and delivered in accordance with Article IV of the Indenture and the Second Supplemental Indenture dated as of November 1, 2008.

Series 2005 Bond Insurance Policy. The term “Series 2005 Bond Insurance Policy” will mean the financial guaranty insurance policy issued by the Insurer insuring the payment of the principal of and interest on the Bonds as provided therein.

Series 2005 Bond Insurance Trustee. The term “Series 2005 Bond Insurance Trustee” will mean The Bank of New York.

Series 2005 Bond Insurer. The term “Series 2005 Bond Insurer” will mean Radian Asset Assurance Inc., a corporation organized under the laws of the State of New York or any successor thereto.

Series 2002 Continuing Disclosure Agreement. The term “Series 2002 Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of August 1, 2002, between the Agency and the Trustee, relating to the Series 2002 Bonds, as it may be amended from time to time in accordance with the terms thereof.

Series 2005 Continuing Disclosure Agreement. The term “Series 2005 Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of October 1, 2005, between the Agency and the Trustee, relating to the Series 2005 Bonds, as it may be amended from time to time in accordance with the terms thereof.

Series 2008 Continuing Disclosure Agreement. The term “Series 2008 Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of November 1, 2008, between the Agency and the Trustee, relating to the Series 2008 Bonds, as it may be amended from time to time in accordance with the terms thereof.

Sinking Account Installment. The term “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. The term “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.

Supplemental Indenture. The term “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 under the Indenture.

Surplus Account. The term “Surplus Account” means the account maintained within the Tax Increment Fund pursuant to the Indenture.

Tax Certificate. The term “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 Increment Fund. The term “Tax Increment Fund” means the fund established pursuant to Section 5.01 of the Indenture.

Tax Increment Revenues. The term “Tax Increment Revenues” means, for each Bond Year, beginning in the Bond Year in which the Series 2002 Bonds are issued, the money allocated or paid to the Agency derived from (a) that portion of taxes levied upon assessable property within the Project Area allocated to the Agency pursuant to Article 6 of Chapter 6 of the Law, Section 16 of Article XVI of the Constitution of the State of California, and the Redevelopment Plan (exclusive of (i) amounts, if any, received by the Agency with respect to personal property within the Project Area pursuant to Section 16111 of the Government Code, and (ii) amounts payable by the Agency pursuant to the statutory Pass-Through Obligations of the Agency in accordance with Section 33607.5 of the Law except to the extent such payments are subordinate to the payment of Annual Debt Service), and (b) reimbursements, subventions, or other payments made by the State of California with respect to any property taxes that would otherwise be due on real or personal property but for an exemption of such property from such taxes; and including that portion of such taxes (if any) otherwise required by Section 33334.2 of the Law to be deposited in the Low and Moderate Income Housing Fund, but only to the extent necessary to repay that portion of the proceeds of the Bonds (including applicable reserves, financing costs and required debt service coverage) used to increase or improve the supply of low and moderate income housing within or of benefit to the Project Area, and excluding all other amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund.

Term Bonds. The term “Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Account Installments established for that purpose, including the Series 2002 Bonds maturing on August 1, 2024 and August 1, 2032; and with respect to the Series 2005 Bonds, “Term Bonds” means the Series 2005 Bonds maturing on August 1, 2030 and August 1, 2035; and with respect to the Series 2008 Bonds, “Term Bonds” means the Series 2008 Bonds maturing on August 1, 2029, August 1, 2033 and August 1, 2038.

Term Bond Sinking Account. The term “Term Bond Sinking Account” means the account maintained within the Tax Increment Fund pursuant to the Indenture.

Trustee. The term “Trustee” means U. S. Bank, National Association, appointed by the Agency in the Indenture and acting as an independent fiduciary with the duties and powers provided in the Indenture, 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.

Written Request of the Agency. The term “Written Request of the Agency” means an instrument in writing signed by the Executive Director or Treasurer of the Agency, or by any other officer of the

Agency duly authorized by the Agency for that purpose, and by the Secretary of the Agency, with the seal of the Agency affixed.

EQUAL SECURITY

In consideration of the acceptance of the Series 2008 Bonds by the Owners thereof, the Second Supplemental Indenture is deemed to be and constitutes a contract between the Agency and the Owners from time to time of all Series 2008 Bonds issued thereunder and then Outstanding to secure the full and final payment of the interest on and principal of and redemption premiums, if any, on all Series 2008 Bonds authorized, executed, issued and delivered thereunder, subject to the agreements, conditions, covenants and provisions therein contained; and the agreements and covenants therein set forth to be performed on behalf of the Agency will be for the equal and proportionate benefit, security and protection of all Owners of the Series 2008 Bonds without preference, priority or distinction as to security or otherwise of any Series 2008 Bonds over any other Series 2008 Bonds.

THE SERIES 2008 BONDS

General Authorization; Series 2008 Bonds. The Agency has reviewed all proceedings taken relative to the authorization of the Series 2008 Bonds and has found, as a result of such review, and has found and determined that all acts, conditions and things required by law to exist, happen or be performed precedent to and in connection with the issuance of the Series 2008 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Agency is now duly authorized, pursuant to each and every requirement of law, to issue the Series 2008 Bonds in the manner and form provided in the Indenture and the Second Supplemental Indenture. Accordingly, the Agency has authorized the issuance of the Series 2008 Bonds for the purposes set forth in the preamble of the Second Supplemental Indenture.

Redemption of the Bonds.

Selection of Bonds. For purposes of selecting Bonds for redemption, the Bonds will be composed of \$5,000 portions and any such portions may be separately redeemed. Whenever less than all the Outstanding Bonds of any Series maturing on any one date are called for redemption at any one time, the Trustee will select the Bonds of such Series to be redeemed from the Outstanding Bonds of such Series maturing on such date not previously selected for redemption, by lot in any manner which the Trustee deems fair.

Purchase in Lieu of Redemption. In lieu of redemption of any Bond pursuant to the provisions of the Indenture, amounts on deposit in the Tax Increment Fund which are available for deposit or deposited in the Bonds Sinking Account may also be used and withdrawn by the Trustee at any time, for the purchase of such Bonds at public or private sale as and when and at such prices (including brokerage and other charges) as the Trustee may in its discretion determine, but not in excess of par plus accrued interest. Any accrued interest payable upon the purchase of Bonds will be paid from amounts held in the Tax Increment Fund for the payment of interest on the next following Interest Payment Date. Any Bonds so purchased will be cancelled by the Trustee forthwith and will not be reissued. The principal of any Bonds so purchased by the Trustee in any twelve-month period ending 60 days prior to any Sinking Account Payment Date in any year will be credited towards and will reduce the principal of such Term Bonds required to be redeemed on such Sinking Account Payment Date in such year.

If the funds sufficient to redeem Bonds subject to an optional redemption thereunder are not deposited on the date the notice of redemption is distributed, such notice will specify that the redemption is subject to the deposit of such funds.

Notice. Subject to the last sentence of this paragraph, notice of redemption will be mailed (by first class mail) by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to (i) the respective Owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee as of the fifteenth day prior to the date of mailing such notice, (ii) one or more Information Services and (iii) the Securities Depositories. Notice of redemption to the Securities Depositories and Information Services may also be given by certified, registered or overnight mail, by facsimile transmission, or by such other confirmable method as may be requested by the Securities Depositories. Each notice of redemption will state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses and telephone number or numbers of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of such Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and the premiums, if any thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. The Trustee will mail by first class mail with return receipt a second, identical notice of redemption sixty days after the scheduled redemption date to Owners who failed to surrender their Bonds in connection with such redemption. The Trustee may give notice of redemption, other than mandatory sinking account redemptions and any notices that refer to Bonds that are being advance refunded, conditioned upon receipt of funds or any other event. The Trustee may, at its option, prior to the date fixed for redemption in any notice of redemption rescind and cancel any notice of redemption.

Failure by the Trustee to give notice pursuant to this Section to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. The failure of any Owner to receive any redemption notice mailed to such Owner and any defect in the notice so mailed will not affect the sufficiency of the proceedings for redemption.

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

In the event that the Bond subject to mandatory redemption is redeemed in part prior to its stated maturity date from any moneys other than Principal Installments, the remaining Principal Installments for such Bond will be reduced proportionately in each year remaining until and including the final maturity date of such Bond. In the case of mandatory redemption provided in this subsection, the Agency will provide the Trustee with a Written Order setting forth the information required under the Indenture.

Effect of Redemption. When notice of redemption has been duly given as aforesaid, and moneys for payment of the redemption price are being held by the Trustee, the Bonds so called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, and from and after the date so designated interest on the Bonds so called for redemption will cease to accrue, said Bonds will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee will, upon surrender for payment of any of said Bonds, pay such Bonds at the redemption price aforesaid.

All Bonds redeemed pursuant to the provisions of this Section will be cancelled upon surrender thereof and delivered to the Agency, and no Bonds will be issued in place thereof.

Execution of Bonds. The Chairperson of the Agency will execute each of the Bonds on behalf of the Agency and the Secretary of the Agency will attest each of the Bonds on behalf of the Agency and imprint by facsimile the official seal of the Agency thereon. Any of the signatures of said Chairperson or said Secretary may be by printed, lithographed or engraved facsimile reproduction. In case any officer whose signature appears on the Bonds will cease to be such officer before the delivery of the Bonds to the purchaser thereof, such signature will nevertheless be valid and sufficient for all purposes the same as though he had remained in office until such delivery of the Bonds. Any Bond may be signed and attested on behalf of the Agency by such persons as at the actual date of the execution of such Bond will be the proper officers of the Agency although at the nominal date of such Bond any such person may not have been such officer of the Agency.

Except as may be provided in a Supplemental Indenture, only such of the Bonds as will bear thereon a certificate of authentication and registration in the form recited in the Indenture, executed and dated by the Trustee, upon the Written Request of the Agency, will be entitled to any benefits under the Indenture or be valid or obligatory for any purpose, and such certificate of the Trustee will be conclusive evidence that the Bonds so registered have been duly issued and delivered under the Indenture and are entitled to the benefits of the Indenture.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Indenture, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond at the Corporate Trust Office for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Whenever any Bond or Bonds will be surrendered for transfer, the Agency will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount of the same Series, interest rate and maturity date. The Trustee will require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

The Trustee will not be required to register the transfer of any Bonds during the fifteen (15) days prior to the date of selection of the Bonds for redemption, or of any Bonds selected for redemption.

Exchange of Bonds. The Bonds may be exchanged at the Corporate Trust Office for a like aggregate principal amount of Bonds of the same Series, interest rate and maturity date in other authorized denominations. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be required to exchange any Bonds during the fifteen (15) days prior to the date of selection of the Bonds for redemption, or of any Bonds selected for redemption.

Bond Registration Books. The Trustee will keep at the Corporate Trust Office sufficient books for the registration and transfer of the Bonds, which will at all times be open to inspection by the Agency; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer the Bonds on said books as provided in the Indenture.

Mutilated, Destroyed, Stolen or Lost Bonds. In case any Bond will become mutilated, or will be believed by the Agency or the Trustee to have been destroyed, stolen or lost, upon proof of ownership

satisfactory to the Trustee, and upon the surrender of such mutilated Bond at the Corporate Trust Office or upon the receipt of evidence satisfactory to the Trustee of such destruction, theft or loss, and upon receipt also of indemnity satisfactory to the Agency and the Trustee, and upon payment by the Owner of all expenses incurred by the Agency and the Trustee, the Agency will execute and the Trustee will authenticate and deliver at said office a new Bond or Bonds of the same maturity and for the same aggregate principal amount, of like tenor and date, bearing the same number or numbers, with such notations as the Trustee will determine, in exchange and substitution for and upon cancellation of the mutilated Bond, or in lieu of and in substitution for the Bond so destroyed, stolen or lost.

If any such destroyed, stolen or lost Bond will have matured or will have been called for redemption, payment of the amount due thereon may be made by the Agency or the Trustee upon receipt of like proof, indemnity and payment of expenses.

Any such duplicate Bonds issued pursuant to this section will be entitled to equal and proportionate benefits with all other Bonds issued under the Indenture. The Agency and the Trustee will not be required to treat both the original Bond and any duplicate Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and duplicate Bond will be treated as one and the same.

Temporary Bonds. Until definitive Bonds will be prepared, the Agency may cause to be executed and delivered in lieu of such definitive Bonds and subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds, except that they may be in any denominations authorized by the Agency, one or more temporary typed, printed, lithographed or engraved Bonds in fully registered form, as may be authorized by the Agency, substantially of the same tenor and, until exchange for definitive Bonds, entitled and subject to the same benefits and provisions of the Indenture as definitive Bonds. If the Agency issues temporary Bonds it will execute and furnish definitive Bonds without unnecessary delay and thereupon the temporary Bonds will be surrendered to the Trustee at the Corporate Trust Office, without expense to the Owner in exchange for such definitive Bonds. All temporary Bonds so surrendered will be cancelled by the Trustee and will not be reissued.

Validity of Bonds. The validity of the authorization and issuance of the Bonds will not be affected in any way by any proceedings taken by the Agency for the financing or refinancing of the Project, or by any contracts made by the Agency in connection therewith, and will not be dependent upon the completion of the financing or refinancing of the Project or upon the performance by any person of his obligation with respect to the Project, and the recital contained in the Bonds that the same are issued pursuant to the Law will be conclusive evidence of their validity and of the regularity of their issuance.

Bond Register. (A) The Trustee will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which will at all times, upon reasonable notice, be open to inspection by any Bondholder or his agent duly authorized in writing or the Agency; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as provided in the Indenture.

(B) The person in whose name any Bond will be registered will be deemed the owner thereof for all purposes thereof, and payment of or on account of the interest and principal or Redemption Price represented by such Bond will be made only to or upon the order in writing of such Holder, which payment will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(C) Upon initial issuance of the Bonds, the ownership of all such Bonds will be registered in the registration records maintained by the Trustee pursuant to the Indenture in the name of U.S. Bank, N.A..

Use of Depository; Book-Entry System. (A) Any series of Bonds issued under the Indenture may be Book-Entry Bonds and will be so designated in the Supplemental Indenture for such series of Bonds. Book-Entry Bonds will be evidenced by one Bond maturing on each of the maturity dates as set forth in the Indenture providing for the issuance of such Bonds in a denomination corresponding to the total principal amount of the Bonds maturing on each maturity date. Each Bond will be assigned by the Trustee a distinctive number or letter or letter and number, and a record of the same will be maintained by the Trustee. Registered ownership of Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture. Payment of the interest on any Bond will be made on each Interest Payment Date to the account, in the manner and at the address indicated in or pursuant to the Letter of Representations.

(B) Upon the initial issuance of Book-Entry Bonds, the ownership of all such Book-Entry Bonds will be registered in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC will request pursuant to the Letter of Representations. The Trustee and the Agency may treat DTC (or its nominee) as the sole and exclusive owner of Book-Entry Bonds registered in its name for the purposes of payment of the principal of and interest on such Book-Entry Bonds, giving any notice permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, registering the transfer of Book-Entry Bonds, obtaining any consent or other action to be taken by Owners of the Book-Entry Bonds and for all other purposes whatsoever; and neither the Trustee nor the Agency will be affected by any notice to the contrary. Neither the Trustee nor the Agency will have any responsibility or obligation to any Participant (which will mean, for purposes of the Indenture, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Book-Entry Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being an Owner of Book-Entry Bonds, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal of or interest on the Book-Entry Bonds, (iii) any notice which is permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, or (iv) any consent given or other action taken by DTC as an Owner of Book-Entry Bonds. The Trustee will pay all principal of and interest on the Book-Entry Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments will be valid and effective to satisfy fully and discharge the Agency's obligations with respect to the principal of and interest on the Book-Entry Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Book-Entry Bonds will be transferable to such new nominee in accordance with the Indenture.

(C) In the event that the Agency determines to discontinue use of the system of book-entry transfers, the Trustee will, upon the written instruction of the Agency, so notify DTC of such decision and the availability of bond certificates. In such event, the Bonds which were previously Book-Entry Bonds will be transferable in accordance with the Indenture. DTC may determine to discontinue providing its services with respect to the Book-Entry Bonds at any time by giving written notice of such discontinuance to the Agency and the Trustee and discharging its responsibilities with respect to the Indenture under applicable law. In such event, such Bonds will be transferable in accordance with the Indenture. Whenever DTC requests the Agency and the Trustee to do so, the Trustee and the Agency will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Book-Entry Bonds then Outstanding. In such event, the Book-Entry Bonds will be transferable to such securities depository in accordance with

the Indenture, and thereafter, all reference in the Indenture to DTC or its nominee will be deemed to refer to such successor securities depository and its nominee, as appropriate.

(D) Notwithstanding any other provision of the Indenture to the contrary, so long as all Book-Entry Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and interest on each such Book-Entry Bond and all notices with respect to each such Book-Entry Bond will be made and given, respectively, to DTC as provided in the Letter of Representations.

(E) The Trustee is thereby authorized and requested to execute and deliver a Letter of Representations with respect to any series of Bonds which are designated as Book-Entry Bonds and, in connection with any successor nominee for DTC and any successor depository, enter into comparable arrangements, and will have the same rights with respect to its actions thereunder as it has with respect to its actions under the Indenture.

(F) In the event that any transfer or exchange of Book-Entry Bonds is authorized under the Indenture, such transfer or exchange will be accomplished upon receipt by the Trustee from the registered owner thereof of the Book-Entry Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.06 and 2.07 of the Indenture. In the event bond certificates are issued to Owners other than Cede & Co., its successor as nominee for DTC as holder of all the Book-Entry Bonds, another securities depository as holder of all the Book-Entry Bonds, or the nominee of such successor securities depository, the provisions of Section 2.03, Section 2.06 and Section 2.07 of the Indenture will also apply to, among other things, the registration, exchange and transfer of the Book-Entry Bonds and the method of payment of principal of and interest on the Book-Entry Bonds.

ISSUANCE OF ADDITIONAL BONDS

Conditions for the Issuance of Additional Bonds. The Agency may at any time after the issuance and delivery of the initial series of Bonds under the Indenture issue Additional Bonds payable from the Tax Increment Revenues and secured by a lien and charge upon the Tax Increment 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 conditions precedent to the issuance of any such Additional Bonds:

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

(b) The issuance of such Additional Bonds will have been duly authorized pursuant to the Law and all applicable laws, and the issuance of such Additional Bonds will have been provided for by a Supplemental Indenture which will specify 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 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; provided that (i) Principal Payment Dates and term Bonds Sinking Account Payment Dates may occur only on Interest Payment Dates, (ii) all such Additional Bonds of like maturity will be identical in all respects, except as to number, and (iii) fixed serial maturities or mandatory Term Bonds Sinking Account Installments, or any combination thereof, will be established to provide for the retirement of all such Additional Bonds on or before their respective maturity dates;

(4) The Interest Payment Dates for such Additional Bonds; provided that Interest Payment Dates will be on the same semiannual dates as the Interest Payment Dates for Series 2002 Bonds;

(5) The denomination and method of numbering of such Additional Bonds;

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

(7) The amount and due date of each mandatory term Bonds Sinking Account Installment, if any, for such Additional Bonds;

(8) The amount, if any, to be deposited from the proceeds of such Additional Bonds in the Interest Account;

(9) 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 will 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 then Outstanding Bonds and such Additional Bonds, and that an amount at least equal to the Reserve Account Requirement on all Outstanding Bonds will thereafter be maintained in or credited to such Reserve Account;

(10) The form of such Additional Bonds; and

(11) Such other provisions, as are necessary or appropriate and not inconsistent with the Indenture.

(c) The Tax Increment Revenues to be received by the Agency in each Fiscal Year in which such Additional Bonds are to be Outstanding, based on the most recently equalized assessment roll of the County, will be in an amount equal to at least one hundred thirty-five percent (135%) of the Annual Debt Service for each such Fiscal Year on all then Outstanding Bonds and such Additional Bonds and any unsecured loans, advances, indebtedness or other obligations payable from tax increment revenue allocable to the Agency pursuant to Section 33670 of the Law.

For the purpose of the issuance of Additional Bonds, the Tax Increment Revenues referred to in the Indenture will 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 Increment Revenues and the Agency makes such amounts available as Tax Increment Revenues from the date of delivery to the final maturity of such Additional Bonds.

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

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

(1) Such proceeds will be deposited or invested in Federal Securities or in an Investment Agreement with a financial institution rated Aa or better by S&P's, 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 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 Increment Revenues for the then current Fiscal Year will be at least equal to one hundred thirty-five percent (135%) of Maximum Annual Debt Service on all Outstanding Bonds and such Additional Bonds and any unsubordinated loans, indebtedness or other obligations payable from tax increment revenue allocable to the Agency pursuant to Section 33670 of the Law (exclusive of disqualified Bonds described in the Indenture), less a principal amount of Bonds which is equal to moneys on deposit in said escrow fund after each such transfer; and

(3) Additional Bonds will 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 such 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 will be excluded from the foregoing computation of Maximum Annual Debt Service. Nothing contained in the Indenture will limit the issuance of any tax allocation bonds of the Agency payable from the Tax Increment Revenues and secured by a lien and charge on the Tax Increment Revenues if, after the issuance and delivery of such tax allocation bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding. Nothing contained in the Indenture will limit the issuance of any tax allocation bonds of the Agency secured by a lien and charge on Tax Increment Revenues junior to that of the Bonds.

Procedure for the Issuance of Additional Bonds. All of the Additional Bonds will be executed by the Agency for issuance under the Indenture and delivered to the Trustee and thereupon will be delivered by the Trustee upon the Written Request of the Agency, but only upon receipt by the Trustee of the following documents or money or securities:

(1) A certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(2) A Written Request of the Agency as to the authentication and delivery of such Additional Bonds;

(3) An opinion of counsel of recognized standing in the field of law relating to municipal bonds to the effect that (a) the Agency has the right and power under the Law to enter into the Indenture and all Supplemental Indentures to the Indenture, and the Indenture and all such Supplemental Indentures have been duly executed by the Agency and are valid and binding upon the Agency and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights, by application of equitable principles and by exercise of judicial discretion in appropriate cases), and no other authorization for the Indenture or such Supplemental Indentures is required; (b) the Indenture creates the valid pledge which it purports to create of the Tax Increment Revenues as provided in the Indenture, subject to the

application thereof to the purposes and on the conditions permitted by the Indenture; and (c) such Additional Bonds are valid and binding special obligations of the Agency, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights, by application of equitable principles and by exercise of judicial discretion in appropriate cases) and the terms of the Indenture and all Supplemental Indentures to the Indenture and entitled to the benefits of the Indenture and all such Supplemental Indentures and the Law, and such Additional Bonds have been duly and validly authorized and issued in accordance with the Law and the Indenture and all such Supplemental Indentures;

(4) A Certificate of the Agency containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture; and

(5) Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Additional Bonds.

TAX INCREMENT REVENUES; CREATION OF FUNDS

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

Establishment of Expense Fund and Redevelopment Fund. In addition to the Tax Increment Fund, there is thereby created a special trust fund to be held by the Trustee called the "Redevelopment Agency of the City of Lafayette, Lafayette Redevelopment Project Area Expense Fund" (the "Expense Fund").

In addition to the Expense Fund, there is thereby created the "Redevelopment Agency of the City of Lafayette, Lafayette Redevelopment Project Area Redevelopment Fund" (hereinafter called the "Redevelopment Fund") to be held by the Agency.

So long as any of the Bonds in the Indenture authorized, or any interest thereon, remain unpaid, the moneys in the foregoing funds will be used for no purpose other than those required or permitted by the Indenture and the Law.

Expense Fund. All moneys in the Expense Fund will be applied to the payment of Costs of Issuance incurred by the Agency in connection with the authorization, issuance and sale of Bonds. The Trustee will pay moneys from the Expense Fund upon receipt of requisitions drawn thereon and signed by at least one duly authorized officer or member of the Agency. Upon the payment in full of such costs and expenses or the making of adequate provision for the payment thereof, evidenced by a Certificate of Agency to the Trustee, any balance remaining in such Fund will be deposited in the Redevelopment Fund, and pending such application, the moneys in such Fund may be invested as permitted in Section 5.07 of the Indenture.

Redevelopment Fund. Within the Redevelopment Fund, the Agency will establish a Series 2005 Project Account and may, at the discretion of the Agency, establish subaccounts within such account. A "Series

___ Project Account” will be established by the Agency for each series of Bonds issued pursuant to the Indenture.

Moneys in the Redevelopment Fund will be used and disbursed in the manner provided by law for the purpose of aiding in financing the Project (or for making reimbursements to the Agency for such costs theretofore paid by it).

The Agency warrants that each withdrawal from the Redevelopment Fund will be made in the manner provided by law for the purpose of aiding in financing or refinancing the Project or for making reimbursements to the Agency for such costs theretofore paid by the Agency.

Establishment and Maintenance of Accounts for Use of Moneys in the Tax Increment Fund. All Tax Increment Revenues in the Tax Increment Fund will be set aside by the Trustee in each Bond Year when and as received in the following respective special accounts within the Tax Increment Fund (each of which is thereby created and each of which the Agency thereby covenants and agrees to cause to be maintained), in the following order of priority (except as otherwise provided in subsection (2) below):

- (1) Interest Account;
- (2) Principal Account;
- (3) Term Bonds Sinking Account;
- (4) Reserve Account;
- (5) Surplus Account.

All moneys in each of such accounts will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

(1) **Interest Account.** The Trustee will, at least five (5) days in advance, set aside from the Tax Increment Fund and deposit in the Interest Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds which are Current Interest Bonds on the Interest Payment Dates in such Bond Year. 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 which are Current Interest Bonds on the Interest Payment Dates in such Bond Year. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds which are Current Interest Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(2) **Principal Account.** The Trustee will, at least five (5) days in advance, set aside from the Tax Increment 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 and Accreted Value 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 and Accreted Value of all Outstanding Serial Bonds becoming due and payable on the Principal Payment Date in such Bond Year. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying principal and Accreted Value of the Serial Bonds as they will become due and payable.

In the event that there will be insufficient money in the Tax Increment Fund to pay in full all such principal and Accreted Value and Sinking Account Installments due pursuant to the Indenture in such Bond Year, then the money available in the Tax Increment Fund will be applied pro rata to the payment of such principal and Accreted Value and Sinking Account Installments in the proportion which all such principal and Accreted Value and Sinking Account Installments bear to each other.

(3) Term Bonds Sinking Account. The Trustee will 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 will 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. The Trustee will set aside from the Tax Increment Fund (or subject to the terms of any Supplemental Indenture, transfer from an escrow fund created thereunder) and deposit in the Reserve Account such amount 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 will be on deposit therein an amount equal to the Reserve Account Requirement. All money in or credited to the Reserve Account will 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 or Accreted Value 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 may, upon Written Request of the Agency, 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 moneys on deposit in the Reserve Account, provide funds in an aggregate amount equal to the Reserve Account Requirement. Such policy of insurance, surety bond, letter of credit or comparable credit facility secured for the Bonds will, meet the following requirements:

(a) A surety bond or insurance policy issued to the Trustee, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a “municipal bond insurer”) may be deposited in the Reserve Account to meet the Reserve Account Requirement if the claims paying ability of the issuer thereof will be rated “AAA” or “Aaa” by S&P or Moody’s, respectively.

(b) A surety bond or insurance policy issued to the Trustee by an entity other than a municipal bond insurer may be deposited in the Reserve Account to meet the Reserve Account Requirement if the form and substance of such instrument and the issuer thereof will be approved by the Bond Insurer.

(c) An unconditional irrevocable letter of credit issued to the Trustee by a bank may be deposited in the Reserve Account to meet the Reserve Account Requirement if the issuer thereof is rated at least “AA” by S&P. The letter of credit will be payable in one or more draws upon presentation

by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the bonds. The draws will be payable within two days of presentation of the sight draft. The letter of credit will be for a term of not less than three years. The issuer of the letter of credit will be required to notify the Agency and the Trustee, not later than 30 months prior to the state expiration date of the letter of credit, as to whether such expiration date will be extended, and if so, will indicate the new expiration date.

If such notice indicates that the expiration date will not be extended, the Agency will deposit in the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account together with any other qualifying credit instruments, to equal the Reserve Account Requirement on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the Reserve Account credit instrument is replaced by a Reserve Account credit instrument meeting the requirements in any of (a)-(c) above. The letter of credit will permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Trustee will draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Account is fully funded in its required amount.

(d) The use of any Reserve Account credit instrument pursuant to this Section will be subject to receipt of an opinion of counsel acceptable to the Bond Insurer and in form and substance satisfactory to the Bond Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Bond Insurer. In addition, the use of an irrevocable letter of credit will be subject to receipt of an opinion of counsel acceptable to the Bond Insurer and in form and substance satisfactory to the Bond Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).

(e) The obligation to reimburse the issuer of a Reserve Account credit instrument for any fees, expenses, claims or draws upon such Reserve Account credit instrument will be subordinate to the payment of debt service on the bonds. The right of the issuer of a Reserve Account credit instrument to payment or reimbursement of its fees and expenses will be subordinated to cash replenishment of the Reserve Account, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws will be on a parity with the cash replenishment of the Reserve Account. The Reserve Account credit instrument will provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account credit instrument and the amount then available for further draws or claims. If (i) the issuer of a Reserve Account credit instrument becomes insolvent or (ii) the issuer of a Reserve Account credit instrument defaults in its payment obligations thereunder or (iii) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (iv) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Account credit instrument will be subordinate to the cash replenishment of the Reserve Account.

(f) If (i) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (ii) the rating of the claims paying ability of the issuer of the surety bond or

insurance policy falls below a S&P “AAA” or a Moody’s “Aaa” or (iii) the rating of the issuer of a letter of credit falls below a S&P “AA”, the Agency will either (a) deposit into the Reserve Account an amount sufficient to cause the cash or Permitted Investments on deposit in the Reserve Account to equal the Reserve Account Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (b) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of subsections (a)-(c) above within six months of such occurrence. In the event that (w) the rating of the claims-paying ability of the issuer of a surety bond or insurance policy falls below “A” or (x) the rating of the issuer of the letter of credit falls below “A” or (y) the issuer of the Reserve Account credit instrument defaults in its payment obligations or (z) the issuer of the Reserve Account credit instrument becomes insolvent, the Agency will either (1) deposit into the Reserve Account an amount sufficient to cause the cash or Permitted Investments on deposit in the Reserve Account to equal the Reserve Account Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (2) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of subsections (a)-(c) above within six months of such occurrence.

(g) Where applicable, the amount available for draws or claims under the Reserve Account credit instrument may be reduced by the amount of cash or Permitted Investments deposited in the Reserve Account pursuant to clause (a) of the preceding subparagraph (f).

(h) The Trustee will ascertain the necessity for a claim or draw upon the Reserve Account credit instrument and to provide notice to the issuer of the Reserve Account credit instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Reserve Account credit instrument) prior to each interest payment date. Cash on deposit in the Reserve Account will be used (or investments purchased with such cash will be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Account credit instrument. If and to the extent that more than one Reserve Account credit instrument is deposited in the Reserve Account, drawings thereunder and repayments of costs associated therewith will be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

(5) Surplus Account. After making the deposits referred to in paragraphs (1) through (4) above in such Bond Year, the Trustee will set aside from the Tax Increment Fund and deposit in the Surplus Account all money then remaining in the Tax Increment Fund. On February 2 and August 2 of each year if the Agency is not then in default under the Indenture, the Trustee will 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 Bonds.

Notwithstanding the foregoing, the Trustee will first use any funds in the Surplus Account solely for the purpose of replenishing the other accounts in the Tax Increment 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 or Accreted Value 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 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 Trustee may in its discretion determine; provided that, unless otherwise authorized by the Law, such prices (including brokerage or other expenses) will not exceed the greater of (i) par plus accrued interest (in the case of Current Interest Bonds) or Accreted Value (in the case of Capital Appreciation

Bonds), or (ii) the price at which the Bonds may then be called for redemption. Any accrued interest payable upon the purchase of Current Interest Bonds may be paid from amounts held in the Tax Increment Fund for the payment of interest on the next following Interest Payment Date. Any Bonds so purchased will be cancelled by the Trustee forthwith and will not be reissued. The amount of Bond Obligation 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 will be credited towards and will reduce the amount of Bond Obligation of 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 and the Surplus Account in the Tax Increment Fund, upon the Written Request of the Agency, will be invested by the Trustee in Permitted Investments. If such instructions are not provided, the Trustee will invest such funds in Permitted Investments described in Clause (9) of the definition thereof. Moneys in the Interest Account representing accrued interest paid to the Agency upon the initial sale and delivery of any Bonds and in the Reserve Account, upon the Written Request of the Agency, will be invested by the Trustee in Permitted Investments. The obligations in which moneys in the Tax Increment Fund, the Interest Account, the Principal Account, the Term Bond Sinking Account or the Surplus Account are so invested will mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. Moneys in the Reserve Account will be invested in Permitted Investments with maturities not longer than ten (10) years, the average life of which is no longer than five (5) 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 will remain in the Redevelopment Fund. Any interest, income or profits from the deposits or investments of all other funds and accounts held by the Trustee (other than the Rebate Fund) will be deposited in the Tax Increment Fund. For purposes of determining the amount on deposit in any fund or account held by the Trustee under the Indenture, all Permitted Investments credited to such fund or account will be valued at the lower of cost or the market price thereof (excluding accrued interest and brokerage commissions, if any); provided that Permitted Investments credited to the Reserve Account will be valued at market value (exclusive of accrued interest and brokerage commissions, if any), and any deficiency in the Reserve Account resulting from a decline in market value will be restored to the Reserve Account Requirement no later than the next valuation date. Amounts in the funds and accounts held by the Trustee under the Indenture will be valued at least annually on the first day of August.

AMENDMENTS TO TAKE EFFECT ON THE EFFECTIVE DATE

Amendments to the Indenture to Take Effect on the Effective Date Only. The Indenture is amended and supplemented by the addition of the provisions below in this section; provided, however, that these provisions will become effective only on and after the Effective Date.

Definitions. (a) The following words and terms, as used in the First Supplemental Indenture, will have the following meanings unless the context or use clearly indicates another or different meaning or intent and such definitions will be equally applicable to both the singular and plural forms of the terms and words defined therein:

Agency Swap Payments. The term “Agency Swap Payments” means, with respect to a Qualified Swap Agreement, the regularly scheduled payments payable by the Agency under such Qualified Swap Agreement, without regard to netting of payments payable by the counterparty to the Agency thereunder.

Credit Provider. The term “Credit Provider” means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Parity Obligations.

Credit Provider Reimbursement Obligations. The term “Credit Provider Reimbursement Obligations” means obligations of the Agency to pay from the Tax Increment Revenues amounts due under a Credit Support Agreement, including without limitation, amounts advanced by a Credit Provider pursuant to a Credit Support Instrument as credit support or liquidity for Parity Obligations and the interest with respect thereto.

Credit Support Agreement. The term “Credit Support Agreement” means, with respect to any Credit Support Instrument, the agreement or agreements (which may be the Credit Support Instrument itself) between the Agency and the applicable Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the reimbursement to the Credit Provider for payments under such Credit Support Instrument or for extensions of credit made to the Agency by the Credit Provider, and the interest thereon, and includes any subsequent agreement pursuant to which a substitute Credit Support Instrument is provided, together with any related pledge agreement, security agreement or other security document.

Credit Support Instrument. The term “Credit Support Instrument” means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit and/or liquidity support with respect to the payment of interest, principal, redemption price or purchase price of any Parity Obligations but will not include any such instrument utilized to satisfy the Reserve Account Requirement.

Hedged Bonds. The term “Hedged Bonds” means Bonds issued hereunder as Variable Rate Indebtedness for which a Qualified Swap Agreement has been entered into under which all of the following apply: (a) the term of the Qualified Swap Agreement is coterminous with the maturity of the Hedged Bonds, (b) the initial notional amount of the Qualified Swap Agreement is equal to the initial principal amount of the Hedged Bonds and the notional amount of the Qualified Swap Agreement reduces at the same times and in the same amounts as the scheduled payment of principal (whether at maturity or as a result of mandatory sinking account redemption) of the Hedged Bonds, (c) the Agency’s payment obligations under the Qualified Swap Agreement are based upon a fixed interest rate for the term thereof, and (d) the counterparty’s payment obligations under the Qualified Swap Agreement are not expected to deviate from the interest payments on the Hedged Bonds by more than 25 basis points as certified by the counterparty at the time of entering into the Qualified Swap Agreement.

Net Payment. The term “Net Payment” means with respect to a Qualified Swap Agreement, the net amount payable or receivable by the Agency in connection with each scheduled payment date (other than Termination Payments) under such Qualified Swap Agreement. For purposes of the calculations required therein, if a Net Payment is payable by the Agency, it will be expressed as a positive number and if a Net Payment is receivable by the Agency, it will be expressed as a negative number.

Obligations. The term “Obligations” means (a) obligations with respect to borrowed money and includes bonds, notes or other evidences of indebtedness, installment purchase payments under any contract, and lease payments under any financing or capital lease (determined to be such in accordance with Generally Accepted Accounting Principles), which are payable from the Tax Increment Revenues, (b) obligations to replenish any debt service reserve fund with respect to obligations of the Agency described in (a) above; (c) obligations secured by or payable from any of obligations of the Agency described in (a) above; (d) obligations payable from the Tax Increment Revenues and entered into in connection with, relating to, or otherwise serving as a hedge with respect to, an obligation described in (a), (b) or (c) above under any Public Finance Contract; and (e) Credit Provider Reimbursement Obligations.

Parity Obligations. The term “Parity Obligations” means Bonds and any Obligations which are payable from the Tax Increment Revenues on a parity with the payment of the Bonds and which satisfy the applicable conditions of Article IV of the Indenture, including without limitation Credit Provider Reimbursement Obligations and Net Payments due under Qualified Swap Agreements (but excluding any Termination Payments thereunder). Parity Obligations include the Series 2008 Bonds.

Public Finance Contract. The term “Public Finance Contract” means (i) any contract providing for payments based on levels of, or changes in, interest rates or other indices, (ii) any contract to exchange cash flows or a series of payments, or (iii) any contract to hedge payment, rate spread or similar exposure, including but not limited to interest, any interest rate swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, rate, spread or similar exposure, between the Agency and a Qualified Counterparty.

Qualified Counterparty. The term “Qualified Counterparty” means a party (other than the Agency or a party related to the Agency) who is the other party to a Qualified Swap Agreement and (1)(A) whose senior debt obligations (or whose credit support provider’s senior debt obligations) are rated at least equal to one or more of the following ratings assigned by the Rating Agencies: “AA-” from Fitch, “Aa3” from Moody’s or “AA-” from S&P, as applicable, as of the date of execution of the Qualified Swap Agreement, or (B) whose obligations under the Qualified Swap Agreement are guaranteed for the entire term of the Qualified Swap Agreement by a bond insurer or other institution which has been assigned a credit rating at least equal to one or more of the following ratings assigned by the Rating Agencies: “AA-” from Fitch, “Aa3” from Moody’s or “AA-” from S&P, as applicable, as of the date of execution of the Qualified Swap Agreement, or (C) whose obligations under the Qualified Swap Agreement are collateralized in such a manner as to obtain a rating at least equal to one or more of the following ratings assigned by the Rating Agencies: “AA-” from Fitch, “Aa3” from Moody’s or “AA-” from S&P, as applicable, as of the date of execution of the Qualified Swap Agreement and (2) who is otherwise qualified to act as the other party to a Qualified Swap Agreement under all applicable laws of the State; *provided that* upon the downgrade of such party to a Qualified Swap Agreement, any collateral posted to offset the Agency’s position will be in the following forms and amounts (expressed as a percentage the cost to the Agency of replacing the Qualified Swap Agreement): (i) cash, 100%; (ii) U.S. Treasury obligations maturing in less than two years, 102%; (iii) U.S. Treasury obligations maturing between two and ten years, 103%; or (iv) U.S. Treasury obligations maturing in more than ten years, 104%.

Qualified Swap Agreement. The term “Qualified Swap Agreement” means a Public Finance Contract, the Agency’s obligations to make Net Payments under which are payable from the Tax Increment Revenues on a parity with the payment of other Parity Obligations and satisfying the conditions of Article IV of the Indenture as it may be amended pursuant to the terms hereof, intended to place Parity Obligations or the applicable investments on the interest rate, cash flow or such other basis desired by the Agency.

Termination Payment. The term “Termination Payment” means with respect to a Qualified Swap Agreement, the amount payable by the Agency as a result of the termination of such Qualified Swap Agreement prior to its scheduled expiration date.

Variable Rate Indebtedness. The term “Variable Rate Indebtedness” means any Bonds, the interest rate on which to the maturity thereof is not established at a rate which is not subject to fluctuation or subsequent adjustment, either at the time of issuance of such Obligation or some subsequent date.

(b) In addition, the following definition under the Original Indenture is amended and restated as follows:

Annual Debt Service. The term “Annual Debt Service” means, for each Bond Year, the sum of (1) the interest falling due on Parity Obligations in such year, assuming that all Parity Obligations are retired as scheduled and that the Outstanding Term Bonds or Parity Obligations, if any, are redeemed from such Sinking Account Installments as may be scheduled, (2) the principal amount of all Parity Obligations, if any, falling due by their terms in such year, (3) the Accreted Value of the Outstanding Parity Obligations which are Capital Appreciation Bonds or obligations, if any, falling due by their terms in such year, and (4) the Sinking Account Installments required to be made in such year to pay or redeem Outstanding Term Bonds or Parity Obligations.

Issuance of Hedged Bonds; Qualified Swap Agreements. The Agency may, at any time and from time to time, provide for the issuance of Additional Bonds pursuant to the provisions of the Indenture that are Hedged Bonds, provided that such Hedged Bonds and Supplemental Indenture providing for the issuance thereof satisfy the following requirements:

(a) The aggregate amount of such Hedged Bonds outstanding does not at any time exceed forty percent (40%) of all outstanding Parity Obligations, provided, however, to the extent that such Hedged Bonds in excess of forty percent (40%) of all outstanding Parity Obligations is secured with a financial guaranty insurance policy from a monoline municipal bond insurance company whose claims paying ability is rated at least "A" by S&P and "A2" by Moody's, then this clause (a) will not apply;

(b) Concurrent with the issuance of such Hedged Bonds, the Agency will issue or enter into an obligation or commitment which is a Qualified Swap Agreement, the Net Payments under which will constitute Parity Obligations, provided (i) the Qualified Swap Agreement will relate to a principal amount of Outstanding Parity Obligations specified by an Authorized Agency Representative; and (ii) the notional amount of the Qualified Swap Agreement will not exceed the principal amount of the related Parity Obligations;

(c) The provisions of the Indenture relating to the Tax Increment Fund will be amended to reflect that amounts payable to the counterparty from the Agency, including Agency Swap Payments, and amounts payable to the Agency from the counterparty under the Qualified Swap Agreement, including Net Payments, if any, with respect to such Hedged Bonds will pass through the Tax Increment Fund, and not be paid directly by the Agency to such counterparty or to the Agency by such counterparty; and

(d) The Agency's obligation to pay any Termination Payments in connection with such Hedged Bonds is expressly subordinate to the pledge of Tax Increment Revenues to secure the obligation to pay Annual Debt Service and any other payments due in connection with Parity Obligations thereunder.

COVENANTS OF THE AGENCY

Punctual Payment. The Agency will punctually pay the interest on and principal of and redemption premiums, 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 Increment 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 Increment Revenues (other than Additional Bonds).

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 will be extended or funded, whether or not with the consent of the Agency, such claim for interest so extended or funded will 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 will 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 Increment 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 in the Indenture contained will require the Agency to make any such payments so long as the Agency in good faith will 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 will be made of all transactions relating to the Project and the Tax Increment Fund. Such books of record and accounts will at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than ten percent (10%) of the aggregate amount of Bond Obligation or their representatives authorized in writing.

The Agency will prepare and file with the Trustee and the Bond Insurer 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 will 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 also prepare and file with the Bond Insurer annually as soon as practicable, but in any event not later than one hundred eighty (180) days after the close of each Fiscal Year (i) a budget for the succeeding Fiscal Year, (ii) a statement of amounts on deposit in the Tax Increment Fund and all other funds or accounts established pursuant to the Indenture, and (iii) a statement of the then current assessed value of the properties subject to the taxes providing Tax Increment Revenues for the Bonds; and as to the Reserve Account, the amount on deposit therein as of the last valuation date. The Agency will also 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, a summary statement showing the status of the Project for the preceding Fiscal Year. The Agency will furnish a copy of such audited financial statement and such summary statement to any Owner upon request, and will furnish to the Trustee such reasonable number of copies thereof as may be required by the Trustee for distribution (at the expense of the Agency) to investment bankers, security dealers and others interested in the Bonds.

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 will 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 hereafter 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 will become due; provided that nothing in the Indenture contained will require the Agency to make any such payments so long as the Agency in good faith will 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 will be assessed and taxed in the same manner as privately-owned property (in accordance with the Law), and the lease or contract will provide (1) that the lessee will 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 will 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 will 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 Section 6.11 of the Indenture, 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, will comprise more than ten percent (10%) of the assessed valuation (as shown on the most recent equalization assessment roll of the County) 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, will comprise more than ten percent (10%) of the assessed valuation (as shown on the most recent equalization assessment roll of the County) in the Project Area, it will 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 Increment 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 Increments will be materially reduced by such proposed disposition, the Agency will 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 Increment Revenues if such property were assessed and taxed in the same manner as privately-owned non-exempt property, which payment will 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 will be treated as Tax Increment Revenues and will be deposited by the Trustee in the Tax Increment Fund.

Amendment of Redevelopment Plan. The Agency will not amend the Redevelopment Plan except as provided in this section. If the Agency proposes to amend the Redevelopment Plan, it will 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 Increment Revenues will not be materially reduced by such proposed amendment, the Agency may undertake such amendment. If the Consultant's Report concludes that Tax Increment Revenues will be materially reduced by such proposed amendment, the Agency may not undertake such proposed amendment.

Tax Increment Revenues. The Agency will comply with all requirements of the Law to insure the allocation and payment to it of the Tax Increment Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of Contra Costa County, and will 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 Increment 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.

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; Rebate Fund.

(a) 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 will 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 Indenture it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Agency will instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

(b) The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Notwithstanding any other provision of the Indenture to the contrary, all amounts deposited into or on deposit in the Rebate Fund will be governed by this section and by the Tax Certificate (which is incorporated in the Indenture by reference). The Agency will cause to be deposited in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the provisions of Section 6.16 of the Indenture, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the federal government of the United States of America. The Agency and the Owners will have no rights in or claim to such money.

(c) Upon the written direction of the Agency, the Trustee will invest all amounts held in the Rebate Fund in Permitted Investments, subject to the restrictions set forth in the Tax Certificate.

(d) Upon receipt of the Rebate Instructions required to be delivered to the Trustee by the Tax Certificate, the Trustee will remit part or all of the balances held in the Rebate Fund to the federal government of the United States of America, as so directed. In addition, if the Rebate Instructions so direct, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as the Rebate Instructions direct. Any funds remaining in the Rebate Fund after redemption and payment of all of the Series 2002 Bonds and payment of any required rebate amount, or provision made therefor satisfactory to the Trustee, will be withdrawn and remitted to the Agency.

(e) The Trustee will have no obligation to pay any amounts required to be remitted pursuant to the Indenture, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the Agency.

(f) The Trustee will conclusively be deemed to have complied with the provisions of the Indenture if it follows the directions of the Agency set forth in the Rebate Instructions, and will not be required to take any actions thereunder in the absence of Rebate Instructions from the Agency.

(g) Notwithstanding any other provision of the Indenture, the obligation of the Agency to remit or cause to be remitted any required rebate amount to the United States government and to comply with all other requirements of this section and the Tax Certificate will survive the defeasance or payment in full of the Series 2008 Bonds.

(h) Notwithstanding any provision of this section to the contrary, if the Agency will provide to the Trustee an opinion of Bond Counsel to the effect that any action required under the Indenture is no longer required, or that some further or different action is required, to maintain the exclusion from Federal gross income of the interest on the Bonds pursuant to the Code, the Trustee and the Agency may conclusively rely on such opinion in complying with the provisions of this section, and the provisions of the Indenture will be deemed to be modified to that extent. Nothing contained in the Indenture will be construed as prohibiting the issuance of Bonds the interest on which is not excludable from gross income under Section 103 of the Code, provided, that such Bonds may be issued and the proceeds thereof used without violating any of the covenants in this section as they may apply to any other Bonds.

Compliance with County Agreement. So long as the County Agreement is in full force and effect, the Agency will monitor the total amount of Countable Tax Increment Revenue (as defined in the County Agreement) and the total remaining debt service payable on the Bonds and any unsubordinated loans, advances, or indebtedness on the obligations payable from tax increment income allocated to the Agency pursuant to Section 33670 of the Law (the "Redevelopment Debt Service"). When the Agency determines that the Remaining Debt Service is at least 95% of the portion of the remaining Countable Tax Increment Revenue available to pay Remaining Debt Service, the Agency will deposit any Tax Increment

Revenue it receives in excess of Annual Debt Service in each Fiscal Year with the Trustee, and the Trustee will apply such amounts to the redemption or purchase of the Bonds as provided in the Indenture.

Additional Covenants of the Agency. (a) The Agency represents and warrants that it has not theretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the Tax Increment Revenues that ranks on a parity with or prior to the pledge granted under the Indenture, except to secure the obligations disclosed in the Official Statement that will be outstanding upon issuance of the Series 2008 Bonds. The Agency will not thereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the Tax Increment Revenues that ranks prior to or on a parity with the pledge granted under the Indenture, or file any financing statement describing any such pledge, assignment, lien, or security interest, except as expressly permitted under the Indenture.

(b) As of the Closing Date and thereafter, the Agency will, to the extent required by law, cause the Indenture and all supplements thereto, and other instruments, to be kept, recorded and filed in such manner and in such places as may be required by law in order to create, perfect, preserve and protect fully the security of the holders of the Bonds in the Tax Increment Revenues and any other collateral and the rights of any Trustee for the holders of the Bonds. The Agency covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered such further acts, instruments and transfers as may be required for the better securing, assuring, continuing, transferring, conveying, pledging, assigning and confirming unto the holders of the Bonds or any Trustee for the holders of the Bonds, the Tax Increment Revenues and any other collateral pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Except to the extent it is exempt therefrom, the Agency will pay or cause to be paid all filing fees incident to such filing and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance, and all federal or State fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of such instruments of further assurance.

THE TRUSTEE

Appointment and Acceptance of Duties. The Trustee thereby accepts and agrees to the trusts thereby created to all of which the Agency agrees and the respective Owners of the Bonds, by their purchase and acceptance thereof, agree.

Duties, Immunities and Liability of Trustee.

(a) The Trustee will, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and no implied duties or obligations will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise as a reasonable individual would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Agency may, in the absence of an Event of Default, and upon receipt of an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with subsection (e) of this section, or will become incapable of acting, or will commence a case under any bankruptcy, insolvency or similar law, or a receiver of the Trustee or of its property will be appointed, or any public officer will take control or charge of the Trustee or its property or affairs for the purpose of rehabilitation, conservation or

liquidation, will, remove the Trustee by giving written notice of such removal to the Trustee, and thereupon the Agency will promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may, subject to (d) below, resign by giving written notice of such resignation to the Agency and by giving notice of such resignation by mail, first class postage prepaid, to the Owners at the addresses listed in the Bond Register. Upon receiving such notice of resignation, the Agency will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and will have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Agency and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless, at the written request of the Agency or of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon request of the successor Trustee, the Agency will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee will mail a notice of the succession of such Trustee to the trusts under the Indenture by first class mail, postage prepaid, to the Owners at their addresses listed in the Bond Register.

(e) Any Trustee appointed under the provisions of this section will be a trust company or bank having the powers of a trust company, having a corporate trust office in California, having (or in the case of a bank or trust company which is a member of a bank holding company system, the related bank holding company will have) a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank, trust company or bank holding company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee will cease to be eligible in accordance with the provisions of this subsection, the Trustee will resign immediately in the manner and with the effect specified in this section.

(f) No provision in the Indenture will require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture unless the Owners will have offered to the Trustee security or indemnity it deems reasonable, against the costs, expenses and liabilities that may be incurred.

(g) In accepting the trust thereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity, and under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

(h) The Trustee makes no representation or warranty, express or implied, as to the compliance with legal requirements of the use contemplated by the Agency of the funds under the Indenture.

(i) The Trustee will not be responsible for the recording or filing of any document relating to this Agreement or of financing statements (or continuation statements in connection therewith). The Trustee will not be deemed to have made representations as to the security afforded thereby or as to the validity, sufficiency or priority of any such document, collateral or security of the Bonds.

(j) The Trustee will not be deemed to have knowledge of any Event of Default under the Indenture unless and until a Responsible Officer will have actual knowledge thereof at the Trustee's principal corporate trust office.

(k) The Trustee will not be accountable for the use or application by the Agency or any other party of any funds which the Trustee has released under the Indenture.

(l) The Trustee will provide a monthly accounting of all Funds held pursuant to the Indenture to the Agency within fifteen (15) Business Days after the end of such month and will provide statements of account for each annual period beginning August 1 and ending July 31, within 90 days after the end of such period. Such accounting will show in reasonable detail all financial transactions made by the Trustee during the accounting period and the balance in any Funds and accounts created under the Indenture as of the beginning and close of such accounting period.

(m) All moneys received by the Trustee will, until used or applied or invested as in the Indenture provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law.

(n) The permissive rights of the Trustee to do things enumerated in the Indenture will not be construed as a duty unless so specified in the Indenture.

(o) The Trustee may appoint and act through an agent and will not be responsible for any misconduct or negligence of any such agent appointed with due care.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company will be eligible under the Indenture, will succeed to the rights and obligations of such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Compensation. The Agency will pay or cause the Agency to pay the Trustee a reasonable compensation for its services rendered under the Indenture and reimburse the Trustee for reasonable expenses, disbursements and advances, including attorney's and agent's fees and expenses, incurred by the Trustee in the performance of its obligations under the Indenture.

The Agency agrees, to the extent permitted by law, to indemnify the Trustee and its officers, directors, employees, attorneys and agents for, and to hold it harmless against, any loss, liability or

expense incurred without negligence or willful misconduct on its part arising out of or in connection with (i) the acceptance or administration of the trusts imposed by the Indenture, including performance of its duties under the Indenture, including the costs and expenses of defending itself against any claims or liability in connection with the exercise or performance of any of its powers or duties under the Indenture (ii) the projects to be financed with the proceeds of the Bonds; (iii) the sale of any Bonds and the carrying out of any of the transactions contemplated by the Bonds; or (iv) any untrue statement of any material fact or omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other disclosure document utilized by the Agency or under its authority in connection with the sale of the Bonds. The Agency's obligations under the Indenture with respect to indemnity of the Trustee and the provision for its compensation set forth in this section will survive and remain valid and binding notwithstanding the maturity and payment of the Bonds, or the resignation, or removal of the Trustee.

The Trustee will have no responsibility for or liability in connection with assuring that all of the procedures or conditions to closing set forth in the contract of purchase for sale of the Bonds are satisfied, or that all documents required to be delivered on the closing date to the parties are actually delivered, except its own responsibility to receive or deliver the proceeds of the sale, deliver the Bonds and other certificates expressly required to be delivered by it and its counsel.

Liability of Trustee. The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the Agency, and the Trustee does not assume any responsibility for the correctness of the same, and does not make any representations as to the validity or sufficiency of the Indenture or of the Bonds, and will not incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it; provided, that the Trustee will be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture except for its own negligence or willful misconduct. The Trustee (in its individual or any other capacity) may become the Owner of Bonds with the same rights it would have if it were not Trustee under the Indenture, and, to the extent permitted by law, may act as depository for and permit any of its officers, directors and employees to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee will represent the Owners of a majority in principal amount (or any lesser amount that may direct the Trustee in accordance with, and as provided in, the provisions of the Indenture) of the Bonds then Outstanding. The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in principal amount (or any lesser amount that may direct the Trustee in accordance with, and as provided in, the provisions of the Indenture) of the Outstanding Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture. Whether or not therein expressly so provided, every provision of the Indenture or related documents relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of this section. All indemnifications and releases from liability granted in the Indenture to the Trustee will extend to the directors, officers, employees and agents of the Trustee.

Right to Rely on Documents. The Trustee may rely on and will be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Agency, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered or omitted by it under the Indenture in good faith and in accordance therewith.

Whenever in the administration of the duties under the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting any action under the Indenture, the Trustee may request such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may be deemed to be conclusively proved and established by an Officer's Certificate, and such Certificate will be full warrant to the Trustee for any action taken or suffered or omitted in good faith under the provisions of the Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, as long as the Trustee will fulfill the requirements of the Indenture.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times upon prior notice to the inspection of the Agency, the Owners of at least twenty-five percent (25%) of the aggregate principal amount of the Bonds and will be subject at all reasonable times upon prior notice to the inspection of the Agency, the Owners of at least twenty-five percent (25%) of the aggregate principal amount of the Bonds, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Indemnity for Trustee. Before taking any action or exercising any rights or powers under the Indenture, the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all costs and expenses which it may incur and to indemnify it against all liability, except liability which may result from its negligence or willful misconduct, by reason of any action so taken.

AMENDMENT OF THE INDENTURE

Amendment by Consent of Owners. The Indenture and the rights and obligations of the Agency and of the Owners may be amended at any time, upon the written consent of the Bond Insurer, by a Supplemental Indenture which will become binding when the written consents of the Owners of sixty percent (60%) in aggregate amount of Bond Obligation, exclusive of Bonds disqualified as provided in the Indenture are filed with the Trustee. No such amendment will (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 in the Indenture 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 Increment 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 to the amendment.

The Indenture and the rights and obligations of the Agency and of the Owners may also be amended at any time, upon the written consent of the Bond Insurer, by a Supplemental Indenture which will 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 in the Indenture 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 will 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 Article IV;

(d) To modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture 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 will 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.

(g) For purposes of giving consent under this section, the Bond Insurer with respect to any series of Bonds covered by a Bond Insurance Policy will be deemed the Owner of such Bonds so long as such Bond Insurer is not in default under such Bond Insurance Policy.

Disqualified Bonds. Bonds owned or held by or for the account of the Agency or the City will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds in this article provided for, and will not be entitled to consent to, or take any other action in this article provided for.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as provided in the Indenture, the Agency may determine that the Bonds may bear a notation, by endorsement in form approved by the Agency, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action will be made on such Bond. If the Agency will so determine, new Bonds so modified as, in the opinion of the Agency, will be necessary to conform to such action will be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds will be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent. The provisions of this section will not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Opinion of Counsel. The Trustee may request and conclusively accept an opinion of counsel to the Agency that an amendment of the Indenture is in conformity with the provisions of this article.

Notice to Rating Agencies. The Agency will provide each rating agency rating the Bonds with a notice of any amendment to the Indenture pursuant to this Article and a copy of any Supplemental Indenture.

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Events of Default and Acceleration of Maturities. If one or more of the following events (called “Events of Default”) will happen, that is to say:

(a) If default will 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 will become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

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

An Event of Default will continue to exist under subsections (a) and (b) above after payment is made by the Bond Insurer when due, pursuant to the terms of a Bond Insurance Policy.

(c) If default will be made by the Agency in the observance of any of the agreements, conditions or covenants on its part in the Indenture or in the Bonds contained, and such default will have continued for a period of thirty (30) days after the Agency will have been given notice in writing of such default by the Trustee; provided, however, that such default will not constitute an Event of Default under the Indenture if the Agency will 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; or

(d) If the Agency will 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 will 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 will 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, with the written consent of the Bond Insurer, the Trustee may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation, will, 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 will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. For all purposes under this section, any Bond Insurer is deemed to be an owner of one hundred percent (100%) of the insured bonds unless the Bond Insurer is in default under the terms of the Bond Insurance Policy.

If, at any time after the principal of the Bonds will have been so declared due and payable, and before any judgment or decree for the payment of the money due will have been obtained or entered, the Agency will deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest at the rate of ten percent (10%) per annum on such overdue installments of principal and interest, 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) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the Owners of at least twenty-five percent (25%) in aggregate amount of Bond Obligation, 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 will extend to or will affect any subsequent default, or will 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 provided in the Indenture, and all Tax Incremental Revenues thereafter received by the Agency under the Indenture, will be transmitted to the Trustee and will be applied by the Trustee in the following order:

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to its agents, attorneys and counsel and then to the payment of the costs and expenses of the Owners in providing for the declaration of such event of default, including reasonable compensation to their 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, with interest on the overdue principal at the rate of interest on the serial Bonds, and in case such money will 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 principal without preference or priority among such interest, principal, and interest on overdue principal, ratably to the aggregate of such interest, principal, and interest on overdue principal.

Trustee to Represent Bondowners. The Trustee is thereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and owning the same, will 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 percent (25%) in aggregate amount of Bond Obligation then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it will 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 in the Indenture granted, 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. 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 to the Indenture, and any such suit, action or proceeding instituted by the Trustee will 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.

Bondowners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding will 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 will not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not parties to such direction.

Limitation on Bondowners' Right to Sue. No Owner of any Bond will 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 will have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation then Outstanding will have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners will 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 will have refused or omitted to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are thereby 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 will 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 in the Indenture provided, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Non-Waiver. Nothing in this section or in any other provision of the Indenture, or in the Bonds, will 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 in the Indenture provided, out of the Tax Increment 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 will 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 will impair any such right or power or will 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 this article may be enforced and exercised from time to time and as often as will 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 will 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 in the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy. Every such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or hereafter 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.

DEFEASANCE

Discharge of Indebtedness. If the Agency will pay or cause to be paid, or there will otherwise be paid, to the Owners of all Outstanding Bonds the interest due thereon and the principal and Accreted Value thereof, at the times and in the manner stipulated therein and in the Indenture, then the Owners of such Bonds will cease to be entitled to the pledge of Tax Increment Revenues, and all covenants, agreements and other obligations of the Agency to the Owners of such Bonds under the Indenture will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Agency all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee will 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 will 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 will 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 the Indenture.

Any Outstanding Bonds will 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 will have been deposited with the Trustee either money in an amount which will 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, will 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 and Accreted Value of such Bonds, and the premium, if any, due on such Bonds, as verified by an independent nationally recognized certified public accountant, (2) there will have been delivered to the Trustee an opinion of Bond Counsel regarding the defeasance of such Bonds, and (3) the Agency will 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 this section and stating the maturity or redemption date upon which money is to be available for the payment of the principal and Accreted Value of such Bonds. With respect to Bonds which are to be redeemed, the Agency will direct the Trustee to mail a notice of redemption as provided in Section 2.04(e) of the Indenture.

Neither Federal Securities nor money deposited with the Trustee pursuant to this section nor interest or principal payments on any such Federal Securities will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the interest on and principal of such Bonds; provided, that any cash received from such interest or principal payments on such Federal Securities deposited with the Trustee, if not then needed for such purpose, will, 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 and Accreted Value of such Bonds on and prior to such maturity or redemption date thereof, and interest earned from such reinvestments will be deposited in the Tax Increment Fund. For the purposes of this section, Federal Securities will mean and include only such securities as are not subject to redemption prior to their maturity.

Unclaimed Moneys. Anything in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest on, or principal or prepayment premium, if any, on any of the Bonds which remain unclaimed for two (2) years after the date when such interest on, or principal of or prepayment premium, if any, on any Bonds have become due and payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if

deposited with the Trustee after the said date when such Bonds become due and payable, will be repaid by the Trustee to the Agency, as its absolute property and free from trust, and the Trustee will thereupon be released and discharged with respect to the Indenture and the Owners will look only to the Agency for the payment of such Bonds; provided, however, that before being required to make any such payment to the Agency, the Trustee will, at the expense of the Agency, cause to be mailed to the registered Owners of such Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date will not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the Agency.

MISCELLANEOUS

Liability of Agency Limited to Tax Increment Revenues. Notwithstanding anything in the Indenture contained, the Agency will not be required to advance any money derived from any source of income other than the Tax Increment Revenues for the payment of the interest on or the principal of the Bonds or for the performance of any covenants in the Indenture contained, other than the covenants contained in Section 6.15 of the Indenture. The Agency may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

The Bonds are limited obligations of the Agency and are payable, as to interest thereon and principal thereof, exclusively from the Tax Increment Revenues, and the Agency is not obligated to pay them except from the Tax Increment Revenues. All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the Tax Increment Revenues, and the Tax Increment Revenues constitute a trust fund for the security and payment of the interest on and the principal of the Bonds, to the extent set forth in the Indenture. The Bonds are not a debt of the City of Lafayette, the State of California or any of its political subdivisions, and neither said City, said State nor any of its political subdivisions is liable therefor, nor in any event will the Bonds be payable out of any funds or properties other than those of the Agency pledged therefor as provided in the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction, and neither the members of the Agency nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Benefits of Indenture Limited to Parties. Nothing in the Indenture, expressed or implied, is intended to give to any person other than the Agency, the Trustee, the Bond Insurer and the Owners any right, remedy or claim under or by reason of the Indenture. Any covenants, stipulations, promises or agreements in the Indenture contained by and on behalf of the Agency or any member, officer or employee thereof will be for the sole and exclusive benefit of the Trustee, the Bond Insurer and the Owners.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Agency or any member, officer or employee thereof is named or referred to, such reference will be deemed to include the successor to the powers, duties and functions, with respect to the management, administration and control of the affairs of the Agency, that are presently vested in the Agency or such member, officer or employee, and all the agreements, covenants and provisions contained in the Indenture by or on behalf of the Agency or any member, officer or employee thereof will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any request, declaration or other instrument which the Indenture may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and will be executed by Owners in person or by their attorneys appointed in writing.

Except as otherwise in the Indenture expressly provided, the fact and date of the execution by any Owner or his attorney of such request, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

The Trustee may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The ownership of registered Bonds and the amount, maturity, number and date of holding the same is proved by the registry books provided for in the Indenture.

Any request, declaration or other instrument or writing of the Owner of any Bond will bind all future Owners of such Bond in respect of anything done or suffered to be done by the Agency in good faith and in accordance therewith.

Waiver of Personal Liability. No member, officer or employee of the Agency will be individually or personally liable for the payment of the interest on or principal of the Bonds; but nothing in the Indenture contained will relieve any member, officer or employee of the Agency from the performance of any official duty provided by law.

Acquisition of Bonds by Agency. All Bonds acquired by the Agency, whether by purchase or gift or otherwise, will be surrendered to the Trustee for cancellation.

Destruction of Cancelled Bonds. Whenever in the Indenture provision is made for return to the Agency of any Bonds which have been cancelled pursuant to the provisions of the Indenture, the Agency may, by a Written Request of the Agency, direct the Trustee to destroy such Bonds and furnish to the Agency a certificate of such destruction.

Content of Certificates and Reports. Every certificate or report with respect to compliance with a condition or covenant provided for in the Indenture will include (a) a statement that the person or persons making or giving such certificate or report have read such covenant or condition and the definitions in the Indenture relating to the Indenture; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or report are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the Agency may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion or representation made or given by counsel may be based, insofar as it relates to factual matters information with respect to which is in the possession of the Agency, upon the certificate or opinion of or representations by an officer or officers of the Agency, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his certificate, opinion or representation may be based, as aforesaid, are erroneous, or in exercise of reasonable care should have known that the same were erroneous.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Agency or the Trustee may be established and maintained in the accounting records of the Agency or the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect to the Indenture, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with sound accounting practices and with due regard for the protection of the security of the Bonds and the rights of the Owners.

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APPENDIX B

GENERAL INFORMATION REGARDING THE CITY AND AREA

General

The City of Lafayette (the “City”) is located in Contra Costa County (the “County”), one of the nine counties of the San Francisco Bay Area. The City’s 2008 population is approximately 23,700. The City is primarily a residential community, with commercial and light industrial enterprises as well as local governmental offices. Taxable property in the City had a fiscal year 2008-09 secured assessed value of approximately \$6.5 billion. As of July 1, 2008, the City employed a staff of 39.12 full time equivalents.

The City is governed by an elected City Council (the “City Council”) consisting of five members. The members serve overlapping four year terms. The council members serve without compensation. The City Council selects one member to serve as mayor for a one-year term that expires in December. Mike Anderson has served in this capacity since December 2007.

There are no employees represented by unions in the City. The employees association’s agreement with the City expires on June 30, 2009.

Population

The Table below shows the population of the City and County for selected years from 2002 to 2008.

POPULATION Selected Years 2002 through 2008

	2002	2003	2004	2005	2006	2007	2008
City of Lafayette	24,447	24,433	24,421	24,317	23,897	23,841	23,962
County of Contra Costa	983,418	996,211	1,008,944	1,020,898	1,026,234	1,037,580	1,051,674

Source: *California Department of Finance
Demographic Research Unit*

Housing

The table below provides information relating to housing units for the City of Lafayette.

CITY OF LAFAYETTE Housing Summary 2004-2008

	2004	2005	2006	2007	2008
Single Family	7,774	7,779	7,798	7,821	7,848
Multi-Family	1,648	1,657	1,657	1,657	1,657
Mobile Homes	0	0	0	0	0
Total.....	9,422	9,436	9,455	9,478	9,505

*Source: California Annual Population and Housing Data
California Department of Finance*

Employment

Employment information is collected on a County-wide basis and, therefore, not available for the City of Lafayette. The chart below shows the Civilian Labor Force and Unemployment Rate for Contra Costa County, California and the United States.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Years 2001 through 2008

Year and Area	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2001				
Contra Costa County	508,000	487,500	20,500	4.0%
California.....	17,150,100	16,217,500	932,600	5.4%
United States.....	143,734,000	136,933,000	6,801,000	4.7%
2002				
Contra Costa County	512,300	483,100	29,200	5.7%
California.....	17,326,900	16,165,100	1,161,800	6.7%
United States.....	144,863,000	136,485,000	8,378,000	5.8%
2003				
Contra Costa County	511,600	480,500	31,100	6.1%
California.....	17,414,000	16,223,500	1,190,500	6.8%
United States.....	146,510,000	137,736,000	8,774,000	6.0%
2004				
Contra Costa County	507,700	480,100	27,600	5.4%
California.....	17,552,300	16,459,900	1,092,400	6.2%
United States.....	147,401,000	139,252,000	8,149,000	5.5%
2005				
Contra Costa County	521,300	496,400	24,800	4.8%
California.....	18,008,300	17,084,700	923,600	5.1%
United States.....	149,841,000	142,449,000	7,391,000	4.9%
2006				
Contra Costa County	519,000	496,700	22,300	4.3%
California.....	17,907,200	17,029,900	877,300	4.9%
United States.....	151,428,000	144,427,000	7,001,000	4.6%
2007				
Contra Costa County	526,100	501,200	24,900	4.7%
California.....	18,188,100	17,208,900	979,200	5.4%
United States.....	153,124,000	146,047,000	7,078,000	4.6%

Source: California Employment Development Department.
March 2004 Benchmark

CONTRA COSTA COUNTY
Estimated Number of Wage and Salary Workers by Industry

	2003	2004	2005	2006	2007
Service Providing	284,300	287,100	289,300	293,400	293,900
Natural Resources and Mining	600	900	900	1,000	1,000
Total Farm	2,000	800	800	700	800
Construction	26,900	28,000	29,600	29,200	28,500
Manufacturing	20,600	20,600	19,800	20,200	20,400
Trade, Transportation and Utilities	59,300	59,900	60,400	61,500	62,100
Wholesale Trade	9,300	9,000	8,800	9,100	9,100
Retail Trade	42,200	43,400	44,000	44,000	44,200
Transportation, Warehousing and Utilities	7,900	7,500	7,600	8,400	8,900
Information	13,800	14,000	13,500	13,400	13,100
Finance and Insurance	25,100	25,000	26,400	24,700	22,500
Real Estate and Rental and Leasing	7,300	7,600	7,600	7,400	6,700
Government	50,200	49,300	50,200	48,500	49,800
Total All Industries	549,500	553,100	558,900	561,500	561,000

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding. March 2004 benchmark.

Source: *California Employment Development Department
Labor Market Information Division.*

Largest Employers

The following table summarizes the ten largest employers in the City:

CITY OF LAFAYETTE
Ten Largest Employers

<u>Company</u>	<u>Product/Service</u>	<u>Employees</u>
Safeway	Grocery	260
Bistro at the Park	Restaurant	200
Lafayette Park Hotel & Spa	Hotel	200
Oakwood Athletic Club	Health Club	160
Las Trampas Inc.	Education/Special Academic	103
Burton Valley Elementary School	Education	100
Lescure Co.	Plumbing & HVAC	100
Orchard Nursery & Florist	Nursery	100
Stanley Middle School	Education	100
Acalanes High School	Education	96

Source: *Info USA.*

The following table summarizes the largest employers in the East San Francisco Bay Area, comprising both Alameda and Contra Costa Counties.

**ALAMEDA/CONTRA COSTA COUNTIES (EAST BAY)
Largest Employers**

<u>Employer</u>	<u>Product/Service</u>	<u>Number of Employees</u>
University of California	Public research university	21,009
Kaiser Permanente	Managed health care	20,877
Safeway Inc.	Retail grocery	11,369
Contra Costa County	County government	10,000
State of California	State government	9,444
Alameda County	County government	8,900
U.S. Postal Service	Postal services and products	7,998
Lawrence Berkeley National Laboratory	Scientific research	6,742
Chevron Corp.	Energy	6,500
John Muir Health	Health care/hospitals	5,931
New United Motor Manufacturing	Automobile manufacturer	5,500
Alta Bates Summit Medical Center	Health care/hospital	5,100
Wells Fargo Bank	Commercial bank	4,980
Lawrence Livermore National Laboratory	Scientific research and development	4,942
Oakland Unified School District	Public education	4,867

Source: "Book of Lists 2005", San Francisco Business Times.

Construction Activity

The following table summarizes historical building permit valuation for the County.

**CONTRA COSTA COUNTY
Building Permit Valuation
(Dollars in Thousands)**

<u>Year⁽¹⁾</u>	<u>Residential Units⁽²⁾</u>	<u>Residential Valuation⁽³⁾</u>
2003 ⁽⁴⁾	6,895	\$1,684,240
2004 ⁽⁴⁾	5,483	1,470,014
2005 ⁽⁴⁾	6,312	1,925,422
2006 ⁽⁴⁾	4,488	1,451,820
2007 ⁽⁴⁾	3,607	1,216,666

(1) As of January 1.

(2) Does not include alterations and additions.

(3) Includes all residential building activity.

(4) Non-residential and total valuation not available.

Source: Construction Industry Research Board

Commercial Activity

The following table summarizes historical taxable transactions in the City and the County.

**CITY OF LAFAYETTE AND CONTRA COSTA COUNTY
Taxable Transactions
(Dollars in Thousands)**

Year	City of Lafayette Taxable Transactions	Contra Costa County Taxable Transactions
2002	\$201,933	\$12,159,424
2003	208,432	12,223,295
2004	214,819	12,990,538
2005	225,474	13,480,075
2006	237,533	13,867,661

Source: State Board of Equalization.

Median Household Income

Effective Buying Income (EBI) is defined as money income less personal income tax and non-tax payments, such as fines, fees or penalties. The following table summarizes historical median household EBI, for the City, County, State of California and United States of America.

**CONTRA COSTA COUNTY,
STATE OF CALIFORNIA AND UNITED STATES OF AMERICA
Median Household Effective Buying Income**

Year ⁽¹⁾	Contra Costa County	State of California	United States of America
2002	\$54,448	\$42,484	\$38,035
2003	54,862	42,924	38,201
2004	54,862	42,924	38,201
2005	56,165	43,915	39,324
2006	56,979	44,681	40,529

⁽¹⁾ As of January 1.

Source: Sales and Marketing Management, Demographics USA.

APPENDIX C

**AUDITED FINANCIAL STATEMENTS OF THE
REDEVELOPMENT AGENCY OF THE CITY OF LAFAYETTE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
COMPONENT UNIT FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND JUNE 30, 2006
(With Auditors' Report Thereon)

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2007

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**CITY OF LAFAYETTE
CITY OFFICIALS AS OF JUNE 30, 2007**

MAYOR

Carol Federighi

Term Expires November 2008

CITY COUNCIL

Mike Anderson, Vice Mayor
Term Expires November 2008

Brandt Anderson
Term Expires November 2010

Carl Anduri
Term Expires November 2008

Don Tatzin
Term Expires November 2010

CITY MANAGER

Steven B. Falk-17 years of service

ADMINISTRATIVE SERVICE DIRECTOR

Tracy Robinson- 7 years of service

FINANCIAL SERVICE MANAGER

Gonzalo L. Silva – 17 years of service

Management's Discussion and Analysis

Our discussion and analysis of the Lafayette Redevelopment Agency's financial performance for the fiscal year ended June 30, 2007 provides an overview of year ending results based on the government – wide statements and analysis on the Agency's overall financial position and results of operations to assist users in evaluating the Agency's financial position.

Profile of the Agency

The agency was established pursuant to the Redevelopment Law and is charged with the authority and responsibility of redeveloping and improving blighted areas of the City.

The agency was created by the City Council Ordinance No. 126 adopted on May 1, 1974. The Agency was established pursuant to the Community Redevelopment Law of California. The Redevelopment Plan was adopted by the Agency on December 27, 1994. The project Area occupies approximately 290 acres located in the downtown area and constitutes approximately 3% of the land area of the City. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition.

Agency Powers and Duties

All powers of the Agency are vested in five members who are also members of the City Council. The Agency exercises all the governmental functions as authorized under the Redevelopment Law and has among others powers the authority to acquire, administer, develop, lease or sell property, including the right of eminent domain. The Agency can clear buildings and other improvements and can develop as a building site any real property owned or acquired in connection with such development.

Organization

The City Council serves as the Board of Directors of the Agency. The City of Lafayette was incorporated as a general law city in 1968. The City operates under a council-manager form of government. The five Council Members are elected at large for staggered four-year term.

The Executive Director/City Manager is appointed by the Agency/Council and serves at the Board's/Council pleasure as the administrative head of the Agency and the City. The Executive Director/City Manager is responsible for appointment of all Agency and City employees except the Agency/City Attorney, who is appointed directly by the Board/Council.

Member of the Board and City Council as of June 30, 2007, and their term of office are shown below:

Member	Position	Term Expires
Carol Federighi	Agency Chair and Mayor	November 2008
Mike Anderson	Vice Chair and Vice Mayor	November 2008
Don Tatzin	Board Member	November 2010
Carl Anduri	Board Member	November 2008
Brandt Andersson	Board Member	November 2010

Agency and City Staff

Steven B. Falk, Executive Director and City Manager
 Tracy Robinson, Administrative Services Director
 Gonzalo L. Silva, Financial Services Manager
 Best, Best and Krieger LLP, Agency Counsel and City Attorney.

The agency's primary source of revenue is incremental property taxes. Property taxes allocated to the Agency are computed in the following manner:

- a. The assessed valuation of all property within the Project Area was frozen on the date of adoption of the Redevelopment Plan.
- b. Property taxes related to any incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency.

**LAFAYETTE REDEVELOPMENT AREA PROJECT AREA
 Incremental Assessed Value**

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Secure Value	423,019,990	443,324,554	465,807,196	500,201,044	557,828,158
Unsecured Value	35,676,984	34,197,713	36,504,517	36,469,719	41,670,759
Total Assessed Value	457,217,703	479,829,071	501,646,923	538,670,763	599,498,917
Less: Base Year Value	(331,871,939)	(332,248,715)	(332,248,715)	(332,248,715)	(332,248,715)
Increment Assessed Value	\$125,345,764	\$147,580,356	\$169,398,208	\$206,422,048	\$267,250,202

* Note: For fiscal years 2003-2004 and thereafter, The County Auditor/Controller increased the Agency's base year value from \$331,781,939 to \$332,248,715

**LAFAYETTE REDEVELOPMENT AREA PROJECT AREA
Historical Valuations**

1994-1995	331,871,939	0	331,871,939	
1995-1996	332,213,008	0.10%	331,871,939	341,069
1996-1997	337,914,432	1.72%	331,871,939	6,042,493
1997-1998	337,228,385	-0.20%	331,871,939	5,356,446
1998-1999	353,792,684	4.91%	331,871,939	21,920,745
1999-2000	373,561,119	5.59%	331,871,939	41,689,180
2000-2001	403,685,530	8.06%	331,871,939	71,813,591
2001-2002	430,188,978	6.57%	331,871,939	98,317,039
2002-2003	457,217,163	6.28%	331,871,939	125,345,224
2003-2004	479,829,071	4.95%	332,248,715	147,580,356
2004-2005	501,646,923	4.55%	332,248,715	169,398,208
2005-2006	538,670,763	7.38%	332,248,715	206,422,048
2006-2007	599,498,917	11.30%	332,248,715	267,250,202

**LAFAYETTE REDEVELOPMENT AREA PROJECT AREA
Projected Gross Tax Increment Revenue and Tax Revenues**

<u>Fiscal Year</u>	<u>Estimated Assessed Value</u>	<u>Projected Incremental Value</u>	<u>Projected Gross Tax Increment Revenues</u>	<u>Projected Gross Tax Revenues to Agency (1)</u>
2007-2008	560,433,062	228,184,347	2,281,843	1,796,267
2008-2009	571,641,723	239,393,008	2,393,930	1,884,502
2009-2010	583,074,558	250,825,843	2,508,258	1,974,501

(1) Less Housing Set Aside and County Administration

STATEMENT OF NET ASSETS
Year ended June 30, 2007

	Total
Beginning Net Assets (Statement 2)	\$ 8,226,180
Increase/Decrease	\$ 561,540
Ending Net Assets	\$ 8,787,720

The agency's net assets as of June 30, 2007 increased by \$561,540. This increase in net assets is reflected in the Statement of Activities. The Agency's Net Assets are discussed below:

- Total assets for the Agency were \$32,006,715 versus \$30,773,381 from prior year, an increase of \$1,233,334.
- Total liabilities for the Agency were \$23,218,995 versus \$22,547,201 from prior year, an increase of \$671,794.
- The net assets were \$8,787,720 versus \$8,226,180 an increase o \$561,540 from prior year.

ANALYSES OF MAJOR FUNDS

Capital Project Funds

The Capital Projects Funds are used to account for the acquisition or construction of capital projects. They include the Library Fund and other projects.

The Fund's net revenues were \$1,978,655 versus \$15,778,305 from prior year, a decrease of \$13,799,650

Fund expenditures were \$3,799,255 versus \$4,580,226 from prior year, a decrease of \$780,971. Of the total fund expenditures, \$2,739,208 was spent in the construction of the Library.

Low and Moderate Income Housing Fund

Of the gross tax increment received by the Agency in any year, 20% must be deposited in this fund and used for the purpose of "increasing, improving, and preserving the community's supply of low-and moderate income housing available at affordable housing cost to persons and families of low or moderate income"

The Fund's revenues were \$639,159 versus \$438,447 from prior year an increase of \$200,712 or 46%

Fund expenditures were \$123,078 versus \$63,147 from prior year, an increase of \$59,931 or 95 %.

Debt Service Fund

This Fund accounts for the activities related to the Agency's Tax Allocation Bonds. In fiscal year 2002/2003, the Redevelopment Agency issued \$5,585,000 bonds that bear interest at 2.25% to 5.75% and are due in 2032. The proceeds of these bonds were used to construct the Veteran's Hall. As of June 30, 2007, the principal outstanding of the tax allocation bonds is \$5,360,000. In addition, the Redevelopment Agency acquired in 2004 a property for \$683,461. The purchase was financed by a loan from the City of Lafayette Parking Fund. At June 30, 2007 the outstanding amount of this loan is \$605,302. In October 2005, special revenue bonds were issued for the amount of \$11,680,000 to complete the library project. As of June 30, 2007, the principal outstanding of this revenue bond was \$11,680,000.

Summary

During Fiscal Year 2006-2007, the Lafayette Redevelopment Agency continued to focus on the new Lafayette Library and Learning Center project. The final construction documents were completed after review by the State Office of Library Construction, State Architect, County Building, and County Fire, and after a peer-constructability review. The project was put out for bidding in January, and the City received four bids. The low bid of \$29,490,000 was within 2.5 percent of the engineer's estimate. Construction on the project began in March.

The Agency began a planning process entitled the *Strategy for Downtown Lafayette – A Vision and Specific Plan for 2025*. The planning area generally shares the same boundaries as the Redevelopment Project Area. An urban design consulting firm, Wallace Roberts & Todd, was selected to complete the 18-month community-based planning process. This process began in May.

The Agency continued its participation in mixed-use projects and multi-family residential projects. The Lafayette Mercantile retail, office and public parking project neared construction completion. The Agency negotiated with the owner of Town Center regarding a project with affordable housing and public parking. The Agency continued discussions regarding the redevelopment of the Hillside Motel into condominiums with some on-site or off-site affordable housing units.

Finally, the Senior Housing Task Force identified sites for the development of affordable housing for seniors within the Redevelopment Project Area and selected Eden Housing as the project developer.

Request for Information

This financial report is designed to provide a general overview of the City of Lafayette Redevelopment Agency's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or request for addition financial information should be directed to:

City of Lafayette
Finance Department
3675 Mt Diablo Blvd, Suite 210
Lafayette, Ca 94549

Cropper Accountancy Corporation

Certified Public Accountants

2977 Ygnacio Valley Road, #460

Walnut Creek, California 94598

Tel: (925) 932-3860

Fax: (925) 932-3862

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

The Honorable Mayor,
And Members of the Governing Board of the
City of Lafayette Redevelopment Agency
Lafayette, California

We have audited the accompanying component unit financial statements of the City of Lafayette Redevelopment Agency (the "Agency"), a component unit of the City of Lafayette, California, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these component unit 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 component unit financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the City of Lafayette Redevelopment Agency, as of June 30, 2007 and 2006, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION

October 29, 2007

BASIC FINANCIAL STATEMENTS

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2007 and 2006

Statement 1

<u>ASSETS</u>	Governmental Activities	
	2007	2006
Cash and cash equivalents	\$ 4,754,554	\$ 4,575,296
Investments	6,017,104	3,247,155
Accrued interest receivable	51,911	64,840
Accounts receivable	10,075,696	14,142,125
Prepaid assets	374,112	391,396
Total current assets	21,273,377	22,420,812
Restricted assets:		
Debt service		
Cash and investments	1,561,889	1,979,200
Accrued interest receivable	5,878	22,368
Low/Moderate Income Housing		
Cash and investments	2,344,350	1,800,529
Accrued interest receivable	17,643	16,021
Total restricted assets	3,929,760	3,818,118
Capital assets:		
Land	2,004,444	2,004,444
Improvements in progress	4,799,134	2,530,007
Total capital assets	6,803,578	4,534,451
Total assets	\$ 32,006,715	\$30,773,381
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 678,556	\$ 136,179
Accrued interest payable	347,439	348,856
Note payable to parking fund - current	19,961	18,482
Current portion - tax allocation bonds	105,000	100,000
Total current liabilities	1,150,956	603,517
Noncurrent liabilities		
Advances from general fund	4,547,698	4,298,382
Note payable to parking fund	585,341	605,302
Tax allocation bonds payable	16,935,000	17,040,000
Total noncurrent liabilities	22,068,039	21,943,684
Total liabilities	23,218,995	22,547,201
Net Assets		
Invested in capital assets, net of related debt	-	-
Restricted for		
Debt service	1,567,767	2,001,568
Low/Moderate income housing	2,361,993	1,816,487
Unrestricted		
Designated for Redevelopment	4,857,960	4,408,125
Undesignated	-	-
Net assets	8,787,720	8,226,180
Total liabilities and net assets	\$ 32,006,715	\$30,773,381

The accompanying notes are an integral part of the financial statements

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Activities
For the Year Ended June 30, 2007
with Comparative Amounts for 2006

Statement 2

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses)	
		Charges for Services	Grants and Contributions Operating	Capital	2007	2006
Primary Government						
<i>Redevelopment Activities</i>						
Expenses:						
Administration	\$ 411,021	\$ -	\$ -	\$ -	\$ (411,021)	\$ (467,527)
Capital grants	-	-	-	-	-	14,511,061
Professional services	197,500	-	-	-	(197,500)	(224,408)
Community promotion	5,041	-	-	-	(5,041)	(38,448)
Interest on debt and issuance cost amortization	1,146,394	-	-	-	(1,146,394)	(1,014,651)
Contribute Veterans' home to County	-	-	-	-	-	(7,610,441)
Transfer to capital project fund	119,956	-	-	-	(119,956)	-
Other expenses	<u>620,469</u>	-	-	-	<u>(620,469)</u>	<u>(81,618)</u>
Total Redevelopment Agency expenses	<u>\$ 2,500,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,500,381)</u>	<u>\$ 5,073,968</u>
General revenues:						
					2,448,324	1,678,834
					612,449	402,750
					1,148	34,288
					<u>3,061,921</u>	<u>2,115,872</u>
					561,540	7,189,840
					<u>8,226,180</u>	<u>1,036,340</u>
					<u>\$ 8,787,720</u>	<u>\$ 8,226,180</u>
Reconciliation from Statement of Revenues, Expenditures, and Changes in Fund Balance for Governmental Funds to Statement of Activities (above):						
Excess of revenues over expenditures and other sources (uses)					\$ (1,795,965)	\$ 22,777,027
Current year Capital assets capitalized					2,269,127	3,468,221
(Increase) Decrease in accrued interest payable					1,417	(224,605)
Reduction Bond indebtedness - current year principal payment					100,000	75,000
Bond indebtedness issued during the year					-	(11,680,000)
Bond issuance costs paid, net of current year amortization of \$13,039 (\$6,520 in 2006)					(13,039)	384,638
Contribution of Veterans' building to Contra Costa County					-	(7,610,441)
Change in net assets for the year ended June 30, 2007					<u>\$ 561,540</u>	<u>\$ 7,189,840</u>

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Balance Sheet - Governmental Funds
June 30, 2007 and 2006

	Capital Projects Funds			Debt Service Fund	Special Revenue Fund
	Redevelopment Program	Library Project	Total Capital Projects	Debt Service Fund	Low/moderate Income Housing Fund
ASSETS					
Cash and equivalents	\$ 2,477,601	\$ 2,276,953	\$ 4,754,554	\$ -	\$ -
Investments in bonds	-	6,017,104	6,017,104	-	-
Redevelopment Interfund Balances	849,166	(849,166)	-	-	-
Accounts receivable	-	10,075,696	10,075,696	-	-
Accrued interest receivable	32,678	19,233	51,911	-	-
Other assets	-	2,513	2,513	-	-
Restricted assets for:					
Cash and investments	-	-	-	1,561,889	2,344,350
Accrued interest receivable	-	-	-	5,878	17,643
Total assets	<u>\$ 3,359,445</u>	<u>\$ 17,542,333</u>	<u>\$ 20,901,778</u>	<u>\$ 1,567,767</u>	<u>\$ 2,361,993</u>
 LIABILITIES AND NET ASSETS					
Accounts payable and accrued liabilities	\$ 138,810	\$ 510,321	\$ 649,131	\$ -	\$ 29,425
Advances from general fund	2,904,288	1,643,410	4,547,698	-	-
Loan payable to parking fund	605,302	-	605,302	-	-
Total liabilities and other credits	<u>3,648,400</u>	<u>2,153,731</u>	<u>5,802,131</u>	<u>-</u>	<u>29,425</u>
Fund balances					
Restricted for:					
Debt service	-	-	-	1,567,767	-
Low/moderate income housing	-	-	-	-	2,332,568
Other	(288,955)	15,388,602	15,099,647	-	-
Unrestricted	-	-	-	-	-
Net assets	<u>(288,955)</u>	<u>15,388,602</u>	<u>15,099,647</u>	<u>1,567,767</u>	<u>2,332,568</u>
Total liabilities and net assets	<u>\$ 3,359,445</u>	<u>\$ 17,542,333</u>	<u>\$ 20,901,778</u>	<u>\$ 1,567,767</u>	<u>\$ 2,361,993</u>

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Balance Sheet - Governmental Funds
June 30, 2007 and 2006

Statement 3

<u>Total Governmental Funds</u>			
2007	2006		
		Total Fund Balance - Governmental Fund Balance Sheet (Statement 3)	\$ 18,999,982
		Adjustments:	
\$ 4,754,554	\$ 4,575,296	To record capital assets, previously expensed	6,803,578
6,017,104	3,247,155	To record accrued interest payable on debt, previously recognized on a "when due" basis	(347,439)
-	-	To record tax allocation bonds payable, previously recognized as revenue	(17,040,000)
10,075,696	14,142,125	To record prepaid bond issuance costs	371,599
51,911	64,840	Total adjustments	(10,212,262)
2,513	6,758	Net assets on Statement of Net Assets (Statement 1)	\$ 8,787,720
3,906,239	3,779,729		
23,521	38,389		
<u>24,831,538</u>	<u>25,854,292</u>		
\$ 678,556	\$ 136,179		
4,547,698	4,298,382		
605,302	623,784		
<u>5,831,556</u>	<u>5,058,345</u>		
1,567,767	2,001,568		
2,332,568	1,816,487		
15,099,647	16,977,892		
-	-		
<u>18,999,982</u>	<u>20,795,947</u>		
<u>24,831,538</u>	<u>25,854,292</u>		

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2007 and 2006

	Capital Projects Funds			Debt Service Fund	Special Revenue Funds	Total Governmental Funds	
	General Projects	Library Project	Total Capital Projects	Debt Service Fund	Low/moderate Income Housing Fund	2007	2006
Revenues							
Tax increment revenue	\$ 1,457,284	\$ -	\$ 1,457,284	\$ 394,252	\$ 596,788	\$ 2,448,324	\$ 1,678,834
State and federal grants	-	-	-	-	-	-	14,511,061
Investment income	58,120	462,103	520,223	49,855	42,371	612,449	402,750
Other revenue	197	951	1,148	-	-	1,148	34,288
Total revenues	1,515,601	463,054	1,978,655	444,107	639,159	3,061,921	16,626,933
Expenditures							
Administrative costs	104,328	262,219	366,547	-	44,474	411,021	460,813
Assessment District bond - Principal	-	-	-	100,000	-	100,000	75,000
Planning and design	107,133	322	107,455	-	-	107,455	267,374
Real estate purchase	-	-	-	-	-	-	411,686
Improvement costs	-	2,281,628	2,281,628	-	-	2,281,628	2,795,875
Interest expense	177,485	121,734	299,219	835,553	-	1,134,772	790,046
Professional services	140,873	-	140,873	-	56,627	197,500	224,408
Community promotion	132	4,909	5,041	-	-	5,041	38,448
Loss on Veterans Hall	521,170	-	521,170	-	-	521,170	-
Other expenses	8,926	68,396	77,322	-	21,977	99,299	75,098
Total disbursements	1,060,047	2,739,208	3,799,255	935,553	123,078	4,857,886	5,138,748
Excess (deficiency) of revenues over expenditures	455,554	(2,276,154)	(1,820,600)	(491,446)	516,081	(1,795,965)	11,488,185
Other financing sources (uses):							
Proceeds from Bonds	-	-	-	-	-	-	11,680,000
Bond issuance costs	-	-	-	-	-	-	(391,158)
Operating transfers - in	-	-	-	57,645	-	57,645	6,710,745
Operating transfers - out	(57,645)	-	(57,645)	-	-	(57,645)	(6,710,745)
Total other financing sources (uses)	(57,645)	-	(57,645)	57,645	-	-	11,288,842
Excess (deficiency) of revenues over expenditures, net of other financing sources	397,909	(2,276,154)	(1,878,245)	(433,801)	516,081	(1,795,965)	22,777,027
Beginning fund balances	(686,864)	17,664,756	16,977,892	2,001,568	1,816,487	20,795,947	(1,981,080)
Ending fund balances	\$ (288,955)	\$ 15,388,602	\$ 15,099,647	\$ 1,567,767	\$ 2,332,568	\$ 18,999,982	\$ 20,795,947

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

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities, and Equity
- E. Revenues, Expenditures, and Expenses

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements
- B. Deposits and Investments Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants

NOTE 3. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

- A. Cash and Investments
- B. Restricted Assets
- C. Capital Assets
- D. Accounts Payable
- E. Long-term Debt
- F. Interfund Transactions and Balances
- G. Fund Equity

NOTE 4. DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

- A. Employee Benefit Plans
- B. Risk Management
- C. Commitments and Contingencies
- D. Subsequent Events

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lafayette Redevelopment Agency complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. Financial Reporting Entity

The City of Lafayette Redevelopment Agency (the "Agency") is a Component Unit of the City of Lafayette (the "City") which carries out the Redevelopment Plan of the City.

The Redevelopment Plan sets forth a legal framework and a broad policy framework for the activities of the City of Lafayette Redevelopment Agency in connection with the Lafayette Redevelopment Project. The Redevelopment Plan contains provisions to comply with the Lafayette Redevelopment Plan, and further includes purposes and objectives of the Agency. A basic principle of the Agency in connection with the Redevelopment Plan is that activities to implement the Redevelopment Plan shall be consistent with and further the implementation of the General Plan of the City of Lafayette.

The primary purpose and objective of the Redevelopment Plan is to stimulate and encourage the revitalization of the project area, to eliminate conditions of blight and to prevent the recurrence of blighting conditions, which shall be accomplished subject to and consistent with the goals and policies established by the General Plan of the City of Lafayette. This Redevelopment Plan has been approved by the City of Lafayette Redevelopment Agency, pursuant to the California Community Redevelopment Law of the State of California, and applicable laws and ordinances.

The Agency proposes to:

1. Encourage the redevelopment of the Project Area subject to and consistent with the City's General Plan and/or Specific Plans as may be adopted from time to time through the cooperation of private enterprise and public agencies.
2. Enhance the long term economic well-being of the community.
3. Provide for the rehabilitation of commercial structures and residential dwelling units.
4. Promote the goals and policies of those sections of the General Plan emphasizing: central area, transportation, and population and housing.

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2007

5. Provide public infrastructure improvements and community facilities, such as the installation, construction, and/or reconstruction of streets, utilities, public buildings, and facilities (such as facilities for pedestrian circulation, bikeways, and parking facilities), storm drains, utility undergrounding, or structures, street lighting, landscaping and other improvements which are necessary for the effective redevelopment of the project area.
6. Promote the enhancement of the Mt. Diablo Boulevard corridor to achieve the concepts envisioned by the General Plan.
7. Provide for participation in the redevelopment of property in the project area by owners who agree to so participate in conformity with the Redevelopment Plan.
8. Encourage joint efforts and cooperative efforts among property owners, businesses, and public agencies to satisfy off-street parking requirements.
9. Increase, improve, and preserve the community's supply of affordable housing.
10. Provide a procedural and financial mechanism by which the Agency can assist, complement, and coordinate public and private development, redevelopment, revitalization, and enhancement of the community.

Description of fund accounts

All transactions are recorded in separate governmental funds of the City of Lafayette. The funds are classified and described under Governmental Funds.

Basis of accounting

The Agency follows the modified accrual basis of accounting, under which expenditures, other than interest on indebtedness, are recorded when the liability is incurred, and revenues are recorded when received in cash unless susceptible to accrual (i.e. measurable and available to finance the Agency's current operations).

1.B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the Agency as a whole. They include all Agency funds of the Governmental Agency. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. All funds of the Agency are classified as governmental. An emphasis is placed on major funds within the Agency. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type or are considered major by the City (in this case all Governmental funds are considered major).
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental funds.

The funds of the financial reporting entity are described below:

Governmental funds

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes which for the Redevelopment Agency is the "Low/Moderate Income Housing Fund" which includes 20% of gross tax increment revenue.

Capital Project Funds

Capital Project Funds are used to account for the acquisition or construction of capital projects or items. They include the Library Fund other projects.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of interest and principle on the debt of the Redevelopment Agency which consists of debt issuance with outstanding principle balances as of June 30, 2007 fiscal year of \$17,040,000 which is to be repaid out of future tax increment revenues and is secured by property within the Lafayette City limits.

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The funds are further classified as major as follows:

<u>Fund</u>	<u>Brief Description</u>
Capital Project Funds	Account and provide for specific capital projects
Debt Service Fund	Accounts for resources for payment of interest and Principal of long-term debt issued by the Agency.
Special Revenue Fund: Low/Moderate Income Housing Fund	Accounts for moneys restricted to low to moderate income housing expenditures.

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities (of which there are none) are presented using the economic resources measurement focus as defined as follows:

The governmental-wide statements use an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Fund equity is classified as net assets.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as follows:

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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Basis of accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

1.D. Assets, Liabilities, And Equity

Cash and investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, certificates of deposits of the Agency, and the investment in the State of California fund called the "Local Agency Investment Fund (LAIF)" which is available for immediate withdrawal.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.C. and 3.A.

Interfund receivables and payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "loans payable or advances" from other funds. In addition, there is a note payable with payments scheduled for the next 16 years from the Redevelopment Agency to another governmental fund in the amount of \$605,302 at June 30, 2007. Interfund receivables and payables between the Agency's funds within governmental activities (if any) are eliminated in the Statement of Net Assets. The Redevelopment Agency has also been advanced \$4,547,698 from the General Fund of the City bearing interest at 8% per annum.

Receivables

In the government-wide statements, receivables consist of all revenues earned or contributed at year-end and not yet received. The balance of \$10,075,696 at June 30, 2007 consists of \$10,075,696 for the remaining balance of a state library grant.

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Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets would be recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation would be provided over the assets' estimated useful lives using the straight-line method of depreciation. No depreciation is currently recorded on the land and improvements in process.

The range of estimated useful lives by type of asset will be as follows (no assets are currently subject to depreciation):

Type	Useful Life (years)
Land, easements, and right of way	N/A
Land improvements	20
Building and improvements	50
Infrastructure	15 - 65
Equipment and furniture	3 - 15

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. They are capitalized in the "government-wide financial statements". (see note 3.C. for Capital Assets).

Restricted assets

Restricted assets include cash and investments of the debt service fund that are legally restricted as to their use, which is for the payment of long-term debt obligations. They also include assets held by the "Low/Moderate Income Housing Fund" which are restricted for expenditures.

Long-term debt

All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and debt incurred as a result of long-term advances from other City of Lafayette funds.

Bonds payable for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting in the government-wide statements is that principal payments are reflected as reductions in the liability and interest as expenses.

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Equity classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The capital assets on the Statement of Net Assets were financed 100% by debt.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted for debt or other purposes” are categorized as “unrestricted” which are further categorized as “designated” or “undesignated”. All redevelopment unrestricted net assets are categorized as “designated for redevelopment”.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as restricted and unrestricted, with unrestricted further split between designated and undesignated. See Note 3.G. for additional disclosures.

1.E. Revenues, Expenditures, and Expenses

Property tax and assessments

State of California ("State") Constitution Article XIII provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. Assessed value is calculated at 100% of market value as defined by Article XIII. The State Legislature has determined the method of distribution of receipts from the \$1.00 levy among the counties, cities, school districts and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter approved debt service.

However, because Lafayette was incorporated in 1968 as a no-property tax city, through fiscal year June 30, 1988, Lafayette received property tax distributions only for those geographical areas incorporated into the city limits after 1978, when Proposition XIII became law with its restrictions on funding. Thus, though Lafayette's property owners paid property taxes at the same rate as property owners in other cities, the City of Lafayette received a disproportionately smaller share of the distribution of receipts.

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Pursuant to the 1988 Trial Court Funding Bill and subsequent reallocations, the City is receiving a measure of relief from this funding deficiency. Beginning in 1989, Lafayette began receiving funds in lieu of property taxes and/or additional property tax allocations. The receipt of these funds has been phased in gradually, and by 1997/1998 the City of Lafayette received the equivalent of approximately 7% of the total property taxes that its property owners pay. This can be compared to the average 14% allocation received by cities in Contra Costa County. The amount received is further reduced by a partial shift to fund schools.

The county uses the following calendar to assess properties, bill for, collect, and distribute property taxes.

	Secured	Unsecured
Valuation dates	March 1	March 1
Lien/levy dates	March 1	March 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 April 10	August 31

Incremental property taxes assessed on property within the Lafayette Redevelopment area will be used to fund Redevelopment expenditures and debt service.

Expenditures / expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities (the Redevelopment Agency does not have business-type activities).

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds of the Agency have been eliminated.

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NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2.A. Fund Accounting Requirements

The Agency complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the Agency include the following:

<u>Fund</u>	<u>Required By</u>
Low/Moderate Income Housing	State Law
Debt Service Fund	Bond Indenture

2.B. Deposits and Investments Laws and Regulations

The California Government Code requires California banks and savings and loan associations to secure a government's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a government's deposits. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the entity's total deposits. The first \$100,000 of each institution's deposits are covered by FDIC insurance.

The Agency may waive collateral requirements for deposits, which are insured by federal depository insurance. The Agency had not waived such requirements as of June 30, 2007.

2.C. Revenue Restrictions

The Agency has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
20% of Ad Valorem Taxes	Low/Moderate Income Housing

For the year ended June 30, 2007, the Agency complied, in all material respects, with these revenue restrictions.

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2.D. Debt Restrictions and Covenants

Ad valorem tax

- Authority of Issuance

The bonds authorized by resolutions of the Agency and the City were issued pursuant to the indentures and in accordance with the Redevelopment Law and the other applicable laws of the State of California. (see note 3.E. Long-Term Debt).

- Repayment Funding

In order to provide sufficient funds for repayment of principal and interest when due on the Bonds, and other debt of the Agency, the Agency is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the City, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to all other taxes levied upon property within the City. A portion of said taxes, when collected will be placed in the Debt Service Fund of the Agency for the bonds.

- Assessed Valuation of Property Within the City – Ad Valorem

As required by State law, the City utilizes the services of the County for the assessment and collection of taxes for City purposes. City taxes are collected at the same time and on the same tax rolls as are County, school district, and other special district taxes. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code.

For Fiscal Year 2006-07, the City's total secured and unsecured assessed valuation was \$4,712,484,211 (full cash value).

Other long-term debt

At June 30, 2007, the Agency was committed to meet debt service of \$605,302 (at 8% interest) to the City of Lafayette relating to a note payable to the City. In addition, the Agency has borrowed \$4,597,698 from the General Fund of the City which bears interest at 8% with no defined maturity date.

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NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. Cash and Investments

At June 30, 2007, the carrying amount of the Agency's deposits (through the City) was \$416,036. Bank balances before reconciling items were \$478,989 (before deducting outstanding checks) at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed in the following.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures and certain investments. Interest income earned on pooled cash and investments is allocated on a quarterly basis to the various funds based on average daily cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

The City maintains a cash deposit and investment pool that is available for use by all funds. It is not used for the retirement plan and the deferred compensation plan.

The City is authorized to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper with certain minimum ratings, certificates of deposit, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool (Local Agency Investment Fund).

The City is authorized by State statutes and in accordance with the City's Investment Policy (Policy) to invest in the following:

- ❖ Securities issued or guaranteed by the Federal Government or its agencies
- ❖ State Local Agency Investment Fund (LAIF)
- ❖ Insured and /or collateralized certificates of deposit

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The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The City's investments comply with the established policy.

The combined Agency's proportion of the City's cash and investments at June 30, 2007 are categorized as follows:

Cash and Cash Equivalents:

		<u>Moody Rating</u>
Deposits in Bank - pooled account, net of \$62,953 outstanding checks	\$ 416,036	N/A
Deposit in bank - not pooled	3,877,437	N/A
Local Agency Investment Fund - State of California	<u>3,249,800</u>	N/A
Total Cash and Cash Equivalents	<u>7,543,273</u>	

Investments:

Liquid Mutual Fund (C.A.M.P.)	6,834,774	AAA
FNMA Global Benchmark Note	<u>299,850</u>	AAA
Total Investments	<u>7,134,624</u>	
Total Cash and Investments	<u>\$ 14,677,897</u>	

Reconciliation to financial statements:

Unrestricted:

Cash and cash equivalents	\$ 4,754,554	
Investments	<u>6,017,104</u>	
Unrestricted cash and investments	<u>10,771,658</u>	

Restricted Assets:

Debt-service	1,561,889	
Low/Moderate Income Housing	<u>2,344,350</u>	
	<u>3,906,639</u>	

Total \$ 14,677,897

The Agency's investments with LAIF (through the City) at June 30, 2007 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and/or that have embedded forwards or options.

Asset-backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2007, the RDA had \$3,249,800 invested in LAIF, which had invested 4.26% of the pool investment fund in structured notes and asset-backed securities.

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3.B. Restricted Assets

The amounts reported as restricted assets are held for debt service payments and Low/Moderate Income Housing. The restricted assets are as follows (see note 3.H.):

	<u>Debt Service</u>	<u>Low/moderate Housing Income</u>
Cash	\$ 444,369	\$ 1,462,146
Local Agency Investment Fund	-	882,204
Liquid Mutual Funds	817,670	-
Investment in bonds	299,850	-
Accrued interest	<u>5,878</u>	<u>17,643</u>
	<u>1,567,767</u>	<u>2,361,993</u>
Related Accounts Payable	-	<u>29,425</u>
Net Restricted Assets	<u>\$ 1,567,767</u>	<u>\$ 2,332,568</u>

3.C. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Balance June 30, 2007</u>
Capital Assets:			
Land	\$ 2,004,444	\$ -	\$ 2,004,444
Land and building improvements in process	<u>2,530,007</u>	<u>2,269,127</u>	<u>4,799,134</u>
Total	<u>\$ 4,534,451</u>	<u>\$ 2,269,127</u>	<u>\$ 6,803,578</u>

No depreciation expense has been incurred because construction is in process. The transfer to Contra Costa County was the Veterans' Building. Remaining is the library which is in process.

3.D. Accounts Payable

Payables in the governmental funds and enterprise fund are composed of payables to various vendors, which are paid in the normal course of events in one or two months.

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3.E. Long-Term Debt

The Agency's long-term debt is as follows:

	<u>Long-Term</u>	<u>Due Within One Year</u>	<u>Total</u>
Advances from General Fund	\$ 4,547,698	\$ -	\$ 4,547,698
Loan Payable- Parking Fund	585,341	19,961	605,302
Tax Allocation Bonds - 2003 issue	5,255,000	105,000	5,360,000
Tax Allocation Bonds - 2005 issue	<u>11,680,000</u>	<u>-</u>	<u>11,680,000</u>
	<u>\$ 22,068,039</u>	<u>\$ 124,961</u>	<u>\$ 22,193,000</u>

The liability for Lafayette Redevelopment Project Tax Allocation Bonds was as follows at June 30, 2007.

	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Balance June 30, 2006</u>	<u>Principal Additions (Retirements)</u>	<u>Balance June 30, 2007</u>
2002 Issue Issued fiscal year 2003, matures to 2033	\$ 5,585,000	2.25 to 5.3%	\$ 5,460,000	\$ (100,000)	\$ 5,360,000
2005 Issue Issued fiscal year 2006, matures to 2036	11,680,000	3.0 to 4.7%	<u>11,680,000</u>	<u>-</u>	<u>\$11,680,000</u>
			<u>\$ 17,140,000</u>	<u>\$ 100,000</u>	<u>\$17,040,000</u>

Payments due in fiscal years ending June 30;	<u>Redevelopment Principal</u>	<u>Tax Allocation Interest</u>	<u>Bonds - Issued 2003 Total</u>
2008	\$ 105,000	\$ 290,610	\$ 395,610
2009	110,000	286,468	296,468
2010	115,000	281,824	396,824
2011	115,000	276,821	391,821
2012	125,000	271,388	396,388
2013 - 2017	710,000	1,259,146	1,969,146
2018 - 2022	910,000	1,044,740	1,954,740
2023 - 2027	1,205,000	745,703	1,950,703
2028 - 2032	1,590,000	346,438	1,936,438
2033	<u>375,000</u>	<u>10,781</u>	<u>385,781</u>
	<u>\$ 5,360,000</u>	<u>\$ 4,813,919</u>	<u>\$ 10,173,919</u>

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Payments due in fiscal years ending June 30;	Redevelopment	Tax Allocation	Bonds - Issued
	<u>Principal</u>	<u>Interest</u>	2005 <u>Total</u>
2008	-	541,301	541,301
2009	80,000	540,101	620,101
2010	195,000	535,781	730,781
2011	220,000	529,086	749,086
2012	220,000	521,661	741,661
2013 - 2017	1,270,000	2,456,109	3,726,109
2018 - 2022	1,580,000	2,139,854	3,719,854
2023 - 2027	1,960,000	1,744,638	3,704,638
2028 - 2032	2,465,000	1,230,473	3,695,473
2033 - 2036	3,690,000	390,000	4,080,000
	<u>\$ 11,680,000</u>	<u>\$ 10,629,004</u>	<u>\$ 22,309,004</u>

The following is a debt retirement schedule on the Loan from the City of Lafayette - Parking Fund:

Due Year-end June 30,	Annual Payments Due at June 30,			Principal Balance Remaining
	<u>Interest (8%)</u>	<u>Principal</u>	<u>Total</u>	
2007				605,302
2008	48,424	19,961	68,385	585,341
2009	46,827	21,558	68,385	563,783
2010	45,103	23,282	68,385	540,501
2011	43,240	25,145	68,385	515,356
2012	41,229	27,156	68,385	488,200
2013	39,056	29,329	68,385	458,871
2014	36,710	31,675	68,385	427,196
2015	34,176	34,209	68,385	392,987
2016	31,439	36,946	68,385	356,041
2017	28,483	39,902	68,385	316,139
2018	25,291	43,094	68,385	273,045
2019	21,844	46,541	68,385	226,504
2020	18,120	50,265	68,385	176,239
2021	14,099	54,286	68,385	121,953
2022	9,756	58,629	68,385	63,324
2023	5,061	63,324	68,385	-
	<u>\$ 488,858</u>	<u>\$ 605,302</u>	<u>\$ 1,094,160</u>	

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3.F. Interfund Transactions and Balances

As discussed in note 1.A. and 3.E., the Redevelopment Agency has borrowed \$4,547,698 (at 8% per annum) from the General Fund, which is to be repaid out of future ad valorem revenues. In addition, the Redevelopment Fund had borrowed \$671,415 (balance of \$605,302 at June 30, 2007) from another City fund to be repaid over a 21 (16 remaining payments of \$68,385) year period at 8%, also to be paid out of future ad valorem revenues.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

3.G. Fund Equity

Restricted fund equity / net assets (see note 3.B.):

The following "net asset balances" are restricted:

Debt Service Fund	\$	1,567,767
Low/moderate income housing fund		<u>2,332,568</u>
Total	\$	<u>3,900,335</u>

NOTE 4. OTHER NOTES

4A. Employee Benefit Plans

City employees working for the Redevelopment Agency participate in the City's Employee Benefit Plans.

Employees' retirement plan

The City has established defined contribution retirement plans (Plans) for all permanent full-time and part-time (working 20 or more hours per week) employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes between \$215 and \$515 per month for full-time employees, depending on the individual employee's length of service. Contributions for part-time employees are based on a pro rata share of the full-time contribution based on hours worked. Employees are under no obligation to contribute to the Plans. Employees are fully vested in the City's contributions (and interest allocated to the employee's account) after five years' continuous service by the employee. City contributions and interest forfeited by employees who leave employment before five-year service are used to reduce the City's current-period contribution requirement.

The City's total payroll in fiscal year 2007 was approximately \$2,890,000. Contributions to the plans totaled \$415,666 during the year.

Employee Retirement Contribution

Employees of the City as of July 1, 2004 shall be allowed to choose between two retirement plans as follows:

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June 30, 2007

Tenure-Based Contribution System

The City shall make a contribution toward a retirement fund for each regular full-time employee. The contributions will be made based on the number of months of service from the date of regular employment between \$215 and \$515 per month. Contributions for part-time employees are based on a prorated share of the full-time contributions based on hours worked. This option is only available to employees hired before July 1, 2004.

Salary -Based Contribution System

The City shall make monthly contribution toward a retirement fund for each regular employee. The contribution shall equal 9% of the employee's base salary. In addition, for every \$1.00 contributed by the employee to his/her retirement fund up to 4% of base salary, the City will contribute 50 cents. Employees may choose to be placed on the Salary-Based Contribution System at any time. However, once this option has been exercised, the employee may not revert back to the Tenure-Based Contribution System.

Employees are not required to make voluntary contributions to this system.

Employees are fully vested in the City's contributions (and interest allocated to the employee's account) after five years of continuous service by the employee, with the exception of those employees over 50 years old who are fully vested from the first month of employment.

Deferred compensation plan

All employees of the City are eligible to participate in a City sponsored deferred compensation plan (the "Plan"). The Plan provides for the deferral of a portion of the employees' compensation until retirement, termination, or certain other covered events. The funds are invested by the City on behalf of the employees through an administrator in various instruments including money market funds, bonds and others. The assets of the Plan, under Internal Revenue Code section 457, formerly were the property of the City until paid or made available to participants, subject only to the claims of the City's general creditors. However, based on a change in the income tax code dated August 1996, the assets are no longer those of the city but are in trust for the exclusive benefit of plan participants.

4.B. Risk Management

Insurance coverage

The City purchases its insurance through the Municipal Pooling Authority of Northern California (MPA).

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Notes to Component Unit Financial Statements
June 30, 2007

The following is a summary of coverage as of June 30, 2007:

	Participating Cities' Total Coverage	Deductible (City Portion)
All risk fire and property	\$ 700,000,000	\$ 5,000
Boiler and machinery	\$ 100,000,000	\$ 5,000
Liability	\$ 19,000,000	\$ 5,000
Auto-physical damage	\$ 250,000	\$ 2,000
Workers' compensation	\$ 150,000,000	\$ 0

The total coverage includes the City's deductible, the portion underwritten by MPA and the portion underwritten by other insurance companies.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4.C. Commitments and Contingencies

Claims involving the City of Lafayette

The City is defendant in lawsuits arising in the normal course of business. City management is of the opinion that the potential claims against the City or the Agency, if any, not covered by insurance resulting from litigation are adequately provided for in the General Fund of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAFAYETTE
REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures, and Changes in Fund Balances-
Governmental Funds - Budget Actual
June 30, 2006

Exhibit 1

	Capital Projects Funds			Debt Service Fund			Low/Moderate Income Housing Fund		
	Budget		Actual	Budget		Actual	Budget		Actual
	Original	Revised		Original	Revised		Original	Revised	
Revenues									
Tax increment revenue	\$ 943,464	\$ 1,306,866	\$ 1,457,284	\$ -	\$ -	\$ 394,252	\$ 429,490	\$ 429,611	\$ 596,788
Investment income	53,470	261,176	520,223	100,000	100,000	49,855	15,000	15,000	42,371
Grant revenue	19,570,306	8,378,622	-	-	-	-	-	-	-
Other revenue	-	-	1,148	-	-	-	-	-	-
Total revenues	20,567,240	9,946,664	1,978,655	100,000	100,000	444,107	444,490	444,611	639,159
Expenditures									
Bond principal and interest	-	-	-	395,254	1,023,422	935,553	-	-	-
Administrative costs	641,031	668,600	366,547	-	-	-	46,784	47,266	44,474
Planning and design	-	-	107,455	-	-	-	-	-	-
Improvement costs and real estate	37,982,000	35,900,133	2,281,628	-	-	-	1,250,000	1,250,000	-
Interest expense	-	-	299,219	-	-	-	-	-	-
Professional services	286,800	186,800	140,873	-	-	-	70,000	70,000	56,627
Community promotion	5,000	5,000	5,041	-	-	-	-	-	-
Other expenses	4,300	4,300	598,492	-	-	-	-	-	21,977
Total disbursements	38,919,131	36,764,833	3,799,255	395,254	1,023,422	935,553	1,366,784	1,367,266	123,078
Excess (deficiency) of revenues over expenditures	(18,351,891)	(26,818,169)	(1,820,600)	(295,254)	(923,422)	(491,446)	(922,294)	(922,655)	516,081
Other financing sources (uses):									
Operating transfers in (out)	10,894,694	-	(57,645)	(9,594,694)	-	57,645	-	-	-
Proceeds from bonds	8,000,000	8,000,000	-	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	-	-	-
Total other financing	18,894,694	8,000,000	(57,645)	(9,594,694)	-	57,645	-	-	-
Excess (deficiency) of revenues over expenditures, net of other financing sources	542,803	(18,818,169)	(1,878,245)	(9,889,948)	(923,422)	(433,801)	(922,294)	(922,655)	516,081
Beginning fund balances	16,977,892	16,977,892	16,977,892	2,001,568	2,001,568	2,001,568	1,816,487	1,816,487	1,816,487
Ending fund balances (deficit)	\$ 17,520,695	\$ (1,840,277)	\$ 15,099,647	\$ (7,888,380)	\$ 1,078,146	\$ 1,567,767	\$ 894,193	\$ 893,832	\$ 2,332,568

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

Cropper Accountancy Corporation

Certified Public Accountants

2977 Ygnacio Valley Road, #460
Walnut Creek, California 94598
Tel: (925) 932-3860
Fax: (925) 932-3862

Exhibit 2

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE GUIDELINES

The Honorable Mayor,
And Members of the Governing Board of the
City of Lafayette Redevelopment Agency
Lafayette, California

We have audited the financial statements of the Lafayette Redevelopment Agency (the "Agency") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the City of Lafayette Redevelopment Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lafayette Redevelopment Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION

October 29, 2007

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

[closing date]

Redevelopment Agency
of the City of Lafayette
3675 Mt. Diablo Boulevard, #210
Lafayette, CA 94549

Redevelopment Agency of the City of Lafayette
Lafayette Redevelopment Project Tax Allocation Bonds, Series 2008
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Redevelopment Agency of the City of Lafayette (the “Issuer”) in connection with the issuance of \$9,600,000 aggregate principal amount of Lafayette Redevelopment Project Tax Allocation Bonds, Series 2008 (the “Bonds”), issued pursuant to the provisions of the Community Redevelopment Law of the State of California (being Part I of Division 24 of the Health and Safety Code of the State of California), as amended, and a Second Supplemental Indenture, dated as of November 1, 2008 (the “Second Supplemental Indenture”), between the Agency and Wells Fargo Bank, National Association, as trustee (the “Trustee”), supplementing the Indenture of Trust dated as of August 1, 2002 (the “Original Indenture”, and as supplemented, the “Indenture”), between the Agency and the Trustee. 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 Issuer, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Issuer, certificates of the Issuer, 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 the 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. 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 Issuer. 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. We also express no opinion regarding any calculation set forth or referred to in any of the Bonds or in the Indenture. 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 Issuer.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Tax Increment 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 Issuer 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 Lafayette, the State of California, or any of its political subdivisions and said City of Lafayette and said State of California 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

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the Redevelopment Agency of the City of Lafayette (the “Agency”) in connection with the issuance of \$9,600,000 aggregate principal amount of Redevelopment Agency of the City of Lafayette Tax Allocation Bonds, Series 2008 (the “Bonds”). The Bonds are being issued pursuant to a Second Supplemental Indenture, dated as of November 1, 2008 (the “Second Supplemental Indenture”), between the Agency and Wells Fargo Bank, National Association, as trustee (the “Trustee”), supplementing the Indenture of Trust dated as of August 1, 2002 (the “Original Indenture”, and as supplemented, the “Indenture”), between the Agency and the Trustee. The Agency covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Agency for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (“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 Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the Agency, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at <http://www.sec.gov/info/municipal/nrmsir/htm>.

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

“Repository” shall mean each National Repository and the State Repository.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission, as listed at <http://www.sec.gov/info/municipal/nrmsir/htm>.

SECTION 3. Provision of Annual Reports.

(a) The Agency shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the Agency’s fiscal year (currently ending June 30), commencing with the report for the 2007-08 Fiscal Year (which is due not later than April 1, 2009), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Agency’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent (if other than the Agency). If the Agency is unable to provide to the 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 as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Agency), file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Agency’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Agency for the preceding fiscal year, prepared in accordance with generally accepted accounting principles and the laws of the state of California, including all statements and information prescribed for inclusion therein by the Governmental Accounting Standards Board. If the Agency’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statement of the Agency, the Annual Report shall also include the following:

(b) Principal amount of Bonds outstanding.

- (c) Balances of the Interest Account, Principal Account, Sinking Account, and Reserve Account, and any other accounts held by the Agency or the Trustee relating to the Bonds.
- (d) Agency outstanding debt, including without limitation any Additional Bonds and subordinate debt.
- (e) Information regarding total assessed valuation of taxable properties within the Project Area, as set forth in Table 4 of the Official Statement of the Agency, dated October 29, 2008 (the "Official Statement"), if and to the extent provided to the Agency by the County of Contra Costa (the "County").
- (f) Information regarding total secured tax charges and delinquencies on taxable properties within the Project Area, including without limitation the identities of any delinquent taxpayers that account for more than 10% of the total tax levy within the Project Area, if and to the extent provided to the Agency by the County.
- (g) Information regarding the top twenty (20) tax payers within the Project Area, as set forth in Table 2 of the Official Statement, if and to the extent provided to the Agency by the County.

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 document 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 other 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:
 1. principal and interest payment delinquencies.
 2. non-payment related defaults.
 3. modifications to rights of Holders.
 4. optional, contingent or unscheduled bond calls.
 5. defeasances.
 6. rating changes.
 7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.
 8. unscheduled draws on the debt service reserves reflecting financial difficulties.
 9. unscheduled draws on the credit enhancements reflecting financial difficulties.
 10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Bonds.

(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 each National Repository or with the Municipal Securities Rulemaking Board, and with 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 Agreement 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 Agreement, and may discharge any such 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 Agreement. The initial Dissemination Agent shall be the Agency.

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

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or 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 Agreement, 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 Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the 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 this Disclosure Agreement any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under this Disclosure Agreement; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Contra Costa or in U.S. District Court in or nearest to the County. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Agency, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____.

REDEVELOPMENT AGENCY OF THE CITY OF
LAFAYETTE

By _____
Executive Director

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Agency: REDEVELOPMENT AGENCY OF THE CITY OF LAFAYETTE

Name of Bond Issue: REDEVELOPMENT AGENCY OF THE CITY OF LAFAYETTE TAX ALLOCATION BONDS, SERIES 2008

Date of Issuance: _____

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Agreement of the Agency, dated the Date of Issuance. [The Agency anticipates that the Annual Report will be filed by _____.]

Dated: _____

REDEVELOPMENT AGENCY OF THE CITY OF LAFAYETTE

By _____