

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

\$13,310,000
**REDEVELOPMENT AGENCY OF THE
CITY OF DAVIS**
Davis Redevelopment Project
**2011 Subordinate Tax Allocation Bonds,
Series A**

\$4,690,000
**REDEVELOPMENT AGENCY OF THE
CITY OF DAVIS**
Davis Redevelopment Project
**2011 Subordinate Taxable Tax Allocation Bonds,
Series B**

Dated: Date of Delivery

Due: December 1, as shown below

The Redevelopment Agency of the City of Davis, Davis Redevelopment Project, 2011 Subordinate Tax Allocation Bonds, Series A and 2011 Subordinate Taxable Tax Allocation Bonds, Series B (the "Series A Bonds" and "Series B Bonds" and together, the "Bonds") are being issued by the Redevelopment Agency of the City of Davis (the "Agency") pursuant to the California Redevelopment Law (described herein) and an Indenture of Trust, dated as of March 1, 2011 (the "Indenture"). Proceeds of the Bonds will be used to (i) fund certain redevelopment activities of benefit to the Agency's Davis Redevelopment Project (the "Project Area"); and (ii) fund a reserve fund for the Bonds

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

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The Bonds are payable from Subordinate Tax Revenues (as defined in this Official Statement) to be derived from the Agency's Davis Redevelopment Project (the "Redevelopment Project") and from amounts on deposit in certain funds and accounts established for the Bonds on a parity with certain outstanding obligations of the Agency as described in this Official Statement. The Agency is authorized to incur additional indebtedness payable from Subordinate Tax Revenues on a parity with the Bonds. See "SECURITY FOR THE BONDS". The receipt of Subordinate Tax Revenues is subject to certain risks and limitations. See "BOND OWNERS' RISKS" and "LIMITATIONS ON SUBORDINATE TAX REVENUES" in this Official Statement.

THE BONDS ARE NOT A DEBT OF THE CITY OF DAVIS, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY, AND NEITHER THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM SUBORDINATE TAX REVENUES ALLOCATED TO THE AGENCY FROM THE REDEVELOPMENT PROJECT AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE MEMBERS OF THE AGENCY OR THE CITY, NOR ANY PERSONS EXECUTING THE BONDS, ARE LIABLE PERSONALLY ON THE BONDS BY REASON OF THEIR ISSUANCE.

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

MATURITY SCHEDULE
(see inside cover)

The Bonds are offered when, as and if issued, subject to the approval of their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also acting as Disclosure Counsel. Certain matters will be passed upon for the Agency by Best, Best & Kreiger, LLP, Sacramento, California and for the Underwriters by Nossaman LLP, Irvine, California. It is anticipated that the Bonds in book-entry only form will be available for delivery through the facilities of DTC in New York, New York, on or about March 4, 2011.

Date of Official Statement: March 1, 2011

MATURITY SCHEDULE

2011 Subordinate Tax Allocation Bonds, Series A

\$2,795,000 6.500% Term Bond Due December 1, 2026;
Yield: 6.800%; Price: 97.114%; CUSIP*: 238862FL5

\$10,515,000 7.000% Term Bond Due December 1, 2036;
Yield: 7.250%; Price: 97.087%; CUSIP*: 238862FM3

2011 Subordinate Taxable Tax Allocation Bonds, Series B

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP* (238862)
2011	\$ 585,000	3.250%	3.250%	100.000	FN1
2012	285,000	3.250	3.300	99.912	FP6
2013	295,000	4.000	4.000	100.000	FQ4
2014	305,000	5.000	5.100	99.655	FR2

\$3,220,000 8.000% Term Bond Due December 1, 2022;
Yield: 8.650%; Price: 95.244%; CUSIP*: 238862FS0

* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter, the Issuer nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
DAVIS, CALIFORNIA**

AGENCY MEMBERS AND CITY COUNCIL

Joe Krovoza, *Chair/Mayor*
Rochelle Swanson, *Vice Chair/Mayor Pro Tempore*
Sue Greenwald, *Agency Member/Councilmember*
Stephen Souza, *Agency Member/Councilmember*
Daniel Wolk, *Agency Member/Councilmember*

AGENCY STAFF AND CITY STAFF

Paul Navazio, *Interim Executive Director/Interim City Manager/Treasurer*
Paul Navazio, *Finance Director/Finance Director*
Ken Hiatt, *Deputy Executive Director/Director of Community Development and Sustainability*
Zoe Mirabile, *Secretary/City Clerk*

SPECIAL SERVICES

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Sacramento, California

Bond Counsel

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San Francisco, California

Financial Advisor

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

Trustee

U.S. Bank National Association
San Francisco, California

Fiscal Consultant

Fraser & Associates
Roseville, California

Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

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GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and 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 Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Agency in any press release and in any oral statement made with the approval of an authorized officer of the Agency or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project,” “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Agency or any other entity described or referenced herein since the date hereof.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that 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 or do not occur.

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

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement 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.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price 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 others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Websites. The Agency and the City each maintains a website. Unless specifically indicated otherwise, the information presented on those websites is **not** incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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

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OFFICIAL STATEMENT

\$13,310,000
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
2011 Subordinate Tax Allocation Bonds, Series A

and

\$4,690,000
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
2011 Subordinate Taxable Tax Allocation Bonds, Series B

This Official Statement, including the cover page and appendices hereto, is provided to furnish information in connection with the sale by the Redevelopment Agency of the City of Davis (the “Agency”) of its Davis Redevelopment Project, 2011 Subordinate Tax Allocation Bonds, Series A and 2011 Subordinate Taxable Tax Allocation Bonds, Series B (the “Series A Bonds” and “Series B Bonds” and together, the “Bonds”). This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in “APPENDIX D – Summary of Certain Provisions of the Indenture”.

INTRODUCTION

Authority for Issuance. The Agency is a redevelopment agency existing under the Community Redevelopment Law of the State of California (the “State”), constituting Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code, as amended (the “Redevelopment Law”). The Bonds are being issued under the Redevelopment Law and pursuant to an Indenture of Trust, dated as of March 1, 2011, and a First Supplement to Indenture of Trust, dated as of March 1, 2011 (together, the “Indenture”), by and between the Agency and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds will initially be purchased by the City of Davis Public Facilities Financing Authority (the “Authority”) pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the “JPA Law”). The Bonds purchased by the Authority will be

resold concurrently to E.J. De La Rosa & Co., Inc. and Piper Jaffray & Co., as the underwriters (together, the “**Underwriter**”).

The proceeds of the Bonds will be used to (i) fund certain redevelopment activities of benefit to property within the Agency's Davis Redevelopment Project; and (ii) fund a debt service reserve fund for the Bonds.

The Agency and the Redevelopment Project

The Agency was activated in 1971, by Ordinance No. 599, adopted by the City Council (the “**City Council**”) of the City of Davis (the “**City**”) under the Redevelopment Law. The City Council at the same time declared itself to be the governing body of the Agency. See “THE AGENCY AND THE REDEVELOPMENT PROJECT” below.

The Redevelopment Plan for the Redevelopment Project was originally adopted on November 25, 1987 by Ordinance No. 1454. The Redevelopment Plan has been amended three times. The Redevelopment Project includes approximately 1,435 acres and encompasses the City’s traditional downtown along with other residential, commercial and industrial uses.

Tax Allocation Financing; Source of Repayment

The Bonds are special obligations of the Agency, secured by a pledge of and first lien on Subordinate Tax Revenues (as defined in this Official Statement) derived from the Agency’s Davis Redevelopment Project (the “**Redevelopment Project**”). The Agency previously issued its Davis Redevelopment Project 2003 Tax Allocation Refunding Bonds (the “**2003 Bonds**”) and its Davis Redevelopment Project 2007 Tax Allocation Refunding Bonds (the “**2007 Bonds**” and together with the 2003 Bonds, the “**Senior Bonds**”); the 2003 Bonds and 2007 Bonds are secured by and payable from a senior pledge of Tax Revenues, as described herein.

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a project area. The taxable valuation of a project area last equalized prior to adoption of the redevelopment plan, or base roll, is established and, except for any period during which the taxable valuation drops below the base year level, the taxing agencies thereafter receive the taxes produced by the levy of the then current tax rate upon the base roll. Taxes collected upon any increase in taxable valuation over the base roll are allocated to a redevelopment agency and may be pledged by a redevelopment agency to the repayment of any loans, advances or indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes and must look specifically to the allocation of taxes produced as above indicated.

The Subordinate Tax Revenues securing the Bonds and described herein are derived from the tax increment revenue described in the preceding paragraph.

As more fully described under “SECURITY FOR THE BONDS,” the Redevelopment Law requires the Agency to apply 20% of the tax increment (referred to in this Official Statement as the “**Housing Set-Aside**”) for the purpose of increasing, improving and preserving the supply of low and moderate income housing in the City. None of the Bonds, the 2003 Bonds or 2007 Bonds are secured by or payable from Housing Set-Aside.

The Agency is subject to certain negotiated and statutory pass-through obligations to tax entities within the County of Yolo. See “THE AGENCY AND THE REDEVELOPMENT PROJECT – Pass-Through Agreements” and “– Statutory Tax Sharing” for more information

about these obligations. The Agency's payment obligations under the negotiated pass-through agreements and its statutory pass-through obligations are senior to debt service on the Bonds.

Should there occur any future decrease in the taxable valuation in the Redevelopment Project or in the applicable tax rates, the Subordinate Tax Revenues (as described under the caption "SECURITY FOR THE BONDS – Pledge of Subordinate Tax Revenues to the Bonds") allocated to the Agency from the Redevelopment Project would be reduced and, correspondingly, there could be an adverse impact on the ability of the Agency to repay the Bonds. See "BOND OWNERS' RISKS" in this Official Statement.

Senior Obligations; Parity Obligations

Outstanding Senior Debt. The Bonds are secured by a pledge of Subordinate Tax Revenues (as described herein) which consist primarily of tax increment revenues (described herein) payable to the Agency. The pledge of tax increment revenues for payment of the 2003 Bonds and the 2007 Bonds is senior to the pledge of Subordinate Tax Revenues for payment of the Bonds. The outstanding balance of the 2003 Bonds is \$8,315,000 and of the 2007 Bonds is \$10,835,000.

Outstanding Parity Debt. The Series A Bonds and Taxable Series B Bonds are the first two series of bonds to be issued under the Indenture.

Additional Agency Obligations. The Agency may issue or incur additional obligations with respect to the Redevelopment Project payable on parity with the pledge of the Subordinate Tax Revenues to pay the Bonds, if certain debt service coverage tests are met. See "SECURITY FOR THE BONDS – Parity Debt." The Agency has agreed in the Indenture that it will not issue any additional obligations secured on parity with the Senior Bonds ("**Senior Parity Debt**") for so long as any Bonds are outstanding, except that the Agency may issue Senior Parity Debt to in whole or in part refund outstanding Senior Bonds to the extent that such refunding generates annual debt service savings during each year and does not extend the maturity of the Bonds.

Tax Matters

In the opinion of Bond Counsel, subject to certain qualifications, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes. Interest on the Series B Bonds is not so excluded. Interest on the Series A Bonds and Series B Bonds is exempt from California personal income taxes. See "OTHER INFORMATION – Tax Matters."

Professionals Involved in the Offering

U.S. Bank National Association, San Francisco, California, will act as trustee with respect to the Bonds.

Fraser & Associates, Roseville, California, has acted as fiscal consultant to the Agency (the "**Fiscal Consultant**") and has prepared an analysis of taxable values and tax increment revenues in the Redevelopment Project that is contained in the Official Statement.

Northcross, Hill & Ach, Inc., San Rafael, California, will serve as financial advisor to the Agency. *Payment of the fees and expenses of the financial advisor is contingent upon the sale and delivery of the Bonds.*

All proceedings in connection with the issuance of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall is also acting as Disclosure Counsel. Certain legal matters will be passed on for the Agency by Agency Counsel, Best, Best & Kreiger LLP, Sacramento, California and for the Underwriter by Nossaman LLP, Irvine, California. *Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriters' Counsel is contingent upon the sale and delivery of the Bonds.*

Summaries of Documents

This Official Statement includes brief descriptions of the Bonds, the security for the Bonds, the Agency, the Redevelopment Project and certain other information relevant to the issuance of the Bonds. All references in this Official Statement to the Indenture are qualified in their entirety by reference to the definitive form thereof and all references to the Bonds are further qualified by references to the information with respect thereto contained in the Indenture.

Selected information regarding the City is included in Appendix A. The Agency's audited financial statements for the Fiscal Year ended June 30, 2010, are included in Appendix B. The proposed form of Bond Counsel's legal opinions for the Bonds is set forth in "APPENDIX C – Form of Bond Counsel Opinions." A summary of certain provisions of the Indenture is contained in Appendix D. The proposed form of Continuing Disclosure Certificate is included in Appendix E. All capitalized terms used in this Official Statement and not normally capitalized have the meanings assigned to them in the Indenture, unless otherwise stated in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in "APPENDIX D - Summary of Certain Provisions of the Indenture." Copies of the Indenture are available for inspection during business hours at the corporate trust office of the Trustee in San Francisco, California.

Other Information; Continuing Disclosure

This Official Statement speaks only of its date, as set forth on the cover hereof, and the information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Agency or the City since the date hereof.

The Agency has covenanted in the Indenture and in a Continuing Disclosure Certificate to prepare and deliver an annual report to certain national and state repositories, and to provide certain other information. See the caption "CONTINUING DISCLOSURE" and "APPENDIX E - Form of Continuing Disclosure Certificate."

THE BONDS

Authority for Issuance

The Bonds are being issued under the Indenture and the provisions of the Redevelopment Law. On February 22, 2011, the Agency adopted a resolution authorizing the execution and delivery of the Indenture and the issuance and sale of the Bonds.

Description

The Bonds will be dated as of the date of original delivery (the “**Closing Date**”), will bear interest at the rates per annum and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be issued in fully registered form, without coupons, in the denomination of \$5,000 each or any integral multiple thereof. Interest on the Bonds is payable semiannually on December 1 and June 1 of each year, commencing June 1, 2011 (each an “**Interest Payment Date**”). Principal of and premium, if any, on the Bonds is payable upon the surrender thereof at the corporate trust office of the Trustee in St. Paul, Minnesota, or such other trust office as may be designated by the Trustee (the “**Trust Office**”). Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the registered owners as of the fifteenth day of the month preceding the Interest Payment Date (the “**Record Date**”). At the written request of the Owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, interest on such Bonds shall be paid on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account within the United States of America as shall be specified in such written request (any such written request shall remain in effect until rescinded in writing by the Owner). The principal of and premium (if any) on the Bonds shall be payable in lawful money of the United States of America by check or draft of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

Notwithstanding the foregoing, while the Bonds are held in the book-entry only system of DTC, all such payments of principal, interest and premium, if any, will be made to Cede & Co. as the registered owner of the Bonds, for subsequent disbursement to Participant and beneficial owners. See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM”.

Redemption Provisions

Optional Redemption

Series A Bonds. The Series A Bonds maturing on or before December 1, 2021, are not subject to optional redemption prior to maturity. The Series A Bonds maturing on and after December 1, 2022, are subject to redemption, at the option of the Agency on any date on or after December 1, 2021, as a whole or in part, by such maturities as shall be determined by the Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Series B Bonds. The Series B Bonds maturing on or before December 1, 2021, are not subject to optional redemption prior to maturity. The Series B Bonds maturing on and after December 1, 2022, are subject to redemption, at the option of the Agency on any date on or after December 1, 2021, as a whole or in part, by such maturities as shall be determined by the Agency, and by lot within a maturity, from any available source of funds, at a redemption price

equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption

Series A Bonds. The Series A Bonds maturing on December 1, 2026 and December 1, 2036 (the “**Term Series A Bonds**”) are subject to mandatory redemption in part by lot on December 1, 2022 and December 1, 2027 respectively, and on December 1 in each year thereafter as set forth in the following table, from Sinking Account payments made by the Agency, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof may be purchased in lieu of redemption, in the aggregate respective principal amounts and on the respective dates set forth in the following tables; provided, however, that if some but not all of the Term Series A Bonds have been redeemed pursuant to an optional redemption, the total amount of all future applicable Sinking Account payments will be reduced by the aggregate principal amount of Term Series A Bonds that have been 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.

\$2,795,000 Series A Term Bonds Maturing December 1, 2026

<u>December 1</u>	<u>Principal Amount</u>
2022	\$190,000
2023	590,000
2024	630,000
2025	670,000
2026 (maturity)	715,000

\$10,515,000 Series A Term Bonds Maturing December 1, 2036

<u>December 1</u>	<u>Principal Amount</u>
2027	\$ 760,000
2028	815,000
2029	870,000
2030	930,000
2031	1,000,000
2032	1,070,000
2033	1,140,000
2034	1,220,000
2035	1,310,000
2036 (maturity)	1,400,000

Series B Bonds. The Series B Bonds maturing on December 1, 2022 (the “**Term Series B Bonds**”) are subject to mandatory redemption in part by lot on December 1, 2015, and on December 1 in each year thereafter as set forth in the following tables, from Sinking Account payments made by the Agency, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof may be purchased in lieu of redemption, in the aggregate respective principal amounts and on the respective dates set forth in the following tables; provided, however, that if

some but not all of the Term Series B Bonds have been redeemed pursuant to an optional redemption, the total amount of all future applicable Sinking Account payments will be reduced by the aggregate principal amount of Term Series B Bonds that have been 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.

\$3,220,000 Series B Term Bonds Maturing December 1, 2022

<u>December 1</u>	<u>Principal Amount</u>
2015	\$320,000
2016	345,000
2017	375,000
2018	405,000
2019	435,000
2020	470,000
2021	510,000
2022 (maturity)	360,000

General Redemption Provisions

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

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

Selection of Bonds for Redemption. Whenever any Bonds or portions thereof are to be selected for redemption by lot and the Bonds are no longer held in book-entry form, the Trustee shall make such selection, in such manner as the Trustee shall deem fair and appropriate, and shall notify the Agency thereof. In the event of redemption by lot of Bonds, the Trustee shall assign to each Bond then Outstanding a distinctive number for each \$5,000 of the principal amount of each such Bond. The Bonds to be redeemed shall be the Bonds to which

were assigned numbers so selected, but only so much of the principal amount of each such Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. All Bonds redeemed or purchased pursuant to this Section 2.03 shall be canceled.

Transfer and Exchange. *So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of Bonds will be made in accordance with DTC procedures. See "Appendix F" below. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Principal Corporate Trust Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Bond or Bonds shall be surrendered for registration of transfer, the Agency shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of like series, interest rate, maturity and principal amount. The Trustee shall collect from the Owner any tax or other governmental charge on the transfer of any such Bonds.*

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same series, interest rate and maturity. The Trustee may refuse to exchange either (a) any Bonds during the fifteen (15) days prior to the date established by the Trustee for the selection of Bonds for redemption or (b) any Bonds selected by the Trustee for redemption.

Estimated Sources and Uses of Funds

The anticipated sources and uses of funds from the sale of the Bonds are estimated to be applied as follows:

TABLE 1
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
2011 Subordinate Tax Allocation Bonds

Sources and Uses of Funds

	Series A Bonds	Taxable Series B Bonds
<u>SOURCES:</u>		
Principal Amount of the Bonds	\$13,310,000.00	\$4,690,000.00
Less: Underwriter's Discount	199,650.00	70,350.00
Less: Original Issue Discount	386,965.65	154,446.25
<i>Total Sources:</i>	\$12,723,384.35	\$4,465,203.75
<u>USES:</u>		
Deposit to Reserve Account	\$ 1,109,018.78	\$ 390,781.22
Deposit to Redevelopment Fund	11,614,365.57	4,074,422.53
<i>Total Uses:</i>	\$12,723,384.35	\$4,465,203.75

A portion of the net proceeds of the Bonds will be used to pay all or a portion of the costs of financing redevelopment activities that are of benefit to the Project Area. The Agency has various redevelopment projects which it wishes to complete and which may be financed in whole or in part from Bond proceeds. Actual projects to be financed will be determined by the Agency based upon various considerations to be made by the Agency. The Agency currently hopes to use Series A Bond proceeds to finance construction and equipping of a 350-space, multi-level parking structure with ground-floor retail on approximately one-acre of City-owned property in downtown Davis on E Street between 3rd and 4th Street. The project is a part of the Agency's 5-year Implementation Plan. Pending completion and approval of environmental and engineering studies and approval of design plans by the City Council and Agency Board, the City forecasts ground breaking in 2012 and project completion in 2013. The Agency currently expects that Series B Bond proceeds will be used for redevelopment of mixed use property, particularly in the downtown area.

Debt Service Schedules

The following table presents debt service for the Bonds, followed by a table showing debt service on the Bonds and the senior lien 2003 Bonds and the 2007 Bonds.

TABLE 2
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project

Debt Service Schedule
2011 Subordinate Tax Allocation Bonds, Series A and Taxable Series B

Fiscal Year Ending 6/30	Series A Bonds Principal	Series A Bonds Interest	Total Series A Bonds Debt Service	Series B Bonds Principal	Series B Bonds Interest	Total Series B Bonds Debt Service	Total 2011 Bonds Debt Service
2010-11	-	\$680,646	\$680,646	\$585,000	\$232,086	\$817,086	\$1,497,732
2011-12	-	917,725	917,725	285,000	293,913	578,913	1,496,638
2012-13	-	917,725	917,725	295,000	284,650	579,650	1,497,375
2013-14	-	917,725	917,725	305,000	272,850	577,850	1,495,575
2014-15	-	917,725	917,725	320,000	257,600	577,600	1,495,325
2015-16	-	917,725	917,725	345,000	232,000	577,000	1,494,725
2016-17	-	917,725	917,725	375,000	204,400	579,400	1,497,125
2017-18	-	917,725	917,725	405,000	174,400	579,400	1,497,125
2018-19	-	917,725	917,725	435,000	142,000	577,000	1,494,725
2019-20	-	917,725	917,725	470,000	107,200	577,200	1,494,925
2020-21	-	917,725	917,725	510,000	69,600	579,600	1,497,325
2021-22	\$190,000	917,725	1,107,725	360,000	28,800	388,800	1,496,525
2022-23	590,000	905,375	1,495,375	-	-	-	1,495,375
2023-24	630,000	867,025	1,497,025	-	-	-	1,497,025
2024-25	670,000	826,075	1,496,075	-	-	-	1,496,075
2025-26	715,000	782,525	1,497,525	-	-	-	1,497,525
2026-27	760,000	736,050	1,496,050	-	-	-	1,496,050
2027-28	815,000	682,850	1,497,850	-	-	-	1,497,850
2028-29	870,000	625,800	1,495,800	-	-	-	1,495,800
2029-30	930,000	564,900	1,494,900	-	-	-	1,494,900
2030-31	1,000,000	499,800	1,499,800	-	-	-	1,499,800
2031-32	1,070,000	429,800	1,499,800	-	-	-	1,499,800
2032-33	1,140,000	354,900	1,494,900	-	-	-	1,494,900
2033-34	1,220,000	275,100	1,495,100	-	-	-	1,495,100
2034-35	1,310,000	189,700	1,499,700	-	-	-	1,499,700
2035-36	1,400,000	98,000	1,498,000	-	-	-	1,498,000
Total	\$13,310,000	\$18,613,521	\$31,923,521	\$4,690,000	\$2,299,499	\$6,989,499	\$38,913,020

Debt Service Schedule
Senior 2003 Bonds, Senior 2007 Bonds, 2011 Subordinate Tax Allocation Bonds, Series A
and Taxable Series B

Fiscal Year Ending June 30	Senior 2003 Bonds Debt Service	Senior 2007 Bonds Debt Service	2011 Bonds Interest	2011 Bonds Principal	Total 2011 Bonds Debt Service	Total Debt Service
2010-11	\$ 559,078	\$\$\$ 808,800	\$912,732	\$ 585,000	\$ 1,497,732	\$ 3,111,160
2011-12	558,715	\$\$\$ 809,200	1,211,638	285,000	1,496,638	3,111,161
2012-13	562,553	\$\$\$ 799,000	1,202,375	295,000	1,497,375	2,858,928
2013-14	560,803	\$\$\$ 808,600	1,190,575	305,000	1,495,575	2,864,978
2014-15	558,403	\$\$\$ 812,200	1,175,325	320,000	1,495,325	2,865,928
2015-16	555,803	\$\$\$ 815,000	1,149,725	345,000	1,494,725	2,865,528
2016-17	557,759	\$\$\$ 812,000	1,122,125	375,000	1,497,125	2,866,884
2017-18	559,046	\$\$\$ 803,400	1,092,125	405,000	1,497,125	2,859,571
2018-19	559,909	\$\$\$ 804,400	1,059,725	435,000	1,494,725	2,859,034
2019-20	559,559	\$\$\$ 804,600	1,024,925	470,000	1,494,925	2,859,084
2020-21	558,749	\$\$\$ 809,000	987,325	510,000	1,497,325	2,865,074
2021-22	562,479	\$\$\$ 802,400	946,525	550,000	1,496,525	2,861,404
2022-23	555,519	\$\$\$ 815,200	905,375	590,000	1,495,375	2,866,094
2023-24	557,931	\$\$\$ 806,600	867,025	630,000	1,497,025	2,861,556
2024-25	559,631	\$\$\$ 811,641	826,075	670,000	1,496,075	2,867,350
2025-26	565,250	\$\$\$ 805,450	782,525	715,000	1,497,525	2,868,225
2026-27	569,500	\$\$\$ 797,612	736,050	760,000	1,496,050	2,863,163
2027-28	567,750	\$\$\$ 798,925	682,850	815,000	1,497,850	2,864,525
2028-29	565,250	798,962	625,800	870,000	1,495,800	2,860,013
2029-30	562,000	802,725	564,900	930,000	1,494,900	2,859,625
2030-31	1,198,000	-	499,800	1,000,000	1,499,800	2,697,800
2031-32	1,201,250	-	429,800	1,070,000	1,499,800	2,701,050
2032-33	1,191,750	-	354,900	1,140,000	1,494,900	2,686,650
2033-34	-	-	275,100	1,220,000	1,495,100	1,495,100
2034-35	-	-	189,700	1,310,000	1,499,700	1,499,700
2035-36	-	-	98,000	1,400,000	1,498,000	1,498,000
Total	\$14,806,687	\$16,125,721	\$20,913,019	\$18,000,000	\$38,913,020	\$108,758,445

SECURITY FOR THE BONDS

Allocation of Taxes

As provided in the Redevelopment Plan, and in Article 6 of Chapter 6 of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State of California, taxes levied upon taxable property in the Redevelopment Project each year by or for the benefit of the State of California, any city, county, city and county, district, or other public corporation for fiscal years beginning after the effective date of the ordinance approving the Redevelopment Plan shall be divided as follows:

1. That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of said taxing agencies upon the total sum of the assessed value of the taxable property in the Redevelopment Project as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance approving the Redevelopment Plan shall be allocated to, and when collected shall be paid into the funds of the respective taxing agencies as taxes by or for said taxing agencies on all other property are paid; and

2. Except for taxes which are attributable to a tax levy by a taxing agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989, which shall be allocated to and when collected shall be paid to the applicable taxing agency, that portion of levied taxes each year in excess of such amount will be allocated to, and when collected, will be paid to the Agency to pay the principal of and interest on loans to, money advanced to, or indebtedness incurred by the Agency to finance redevelopment projects.

Pledge of Subordinate Tax Revenues for the Bonds

The Bonds and any additional Parity Debt are secured by a first pledge of and lien on all of the Subordinate Tax Revenues derived from the Redevelopment Project. Subject to meeting certain conditions set forth in the Indenture, the Agency may issued additional obligations secured by the Subordinate Tax Revenues. See "Parity Debt" below. The Agency previously issued debt, being the 2003 Bonds and 2007 Bonds, having a senior lien on tax increment revenues which comprise the Subordinate Tax Revenues and the Agency has covenanted in the Indenture to not issue any additional senior lien debt.

The Indenture defines "**Subordinate Tax Revenues**" to mean all taxes pledged and annually allocated within the Plan Limit and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and including that portion of such taxes otherwise required by Section 33334.3 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 Bonds, if any, and that portion of any Parity Debt (including applicable reserves and financing costs) issued to finance amounts deposited in the Low and Moderate Income Housing Fund for use pursuant to Section 33334.2 of the Law to increase or improve the supply of low and moderate income housing within or of benefit to the

Project Area; but excluding all other amounts of such taxes (if any) (i) required pursuant to the Indenture under which the 2003 Bonds and 2007 Bonds are issued to pay the Agency's obligations with respect to the 2003 Bonds and 2007 Bonds, (ii) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.3 of the Law for increasing and improving the supply of low and moderate income housing, (iii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Code and (iv) amounts payable by the Agency under the Senior Pass-Through Agreements or pursuant to Section 33607.5 and 33607.7 or the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds or to the payment of Parity Debt, as applicable.

Housing Set-Aside

The Redevelopment Law requires that for every redevelopment plan, not less than 20% of the Subordinate Tax Revenues be set aside in a separate low and moderate income housing fund (the "**Housing Fund**") and used by the Agency for the purposes of increasing and improving the community's supply of low and moderate income housing (the "**Housing Set-Aside**"). Amounts on deposit in the Housing Fund may also be applied to pay debt service on bonds, loans or advances of redevelopment agencies issued or incurred to provide financing for such low and moderate income housing purposes. Neither the Bonds, the 2003 Bonds nor 2007 Bonds are secured by or payable from Housing Set-Aside.

No Power to Tax

The Agency has no power to levy and collect property taxes, and any property tax limitation, legislative measure, voter initiative or provisions of additional sources of income to taxing agencies having the effect of reducing the property tax rate, could reduce the amount of Subordinate Tax Revenues that would otherwise be available to pay the principal of, and interest on, the Bonds. Likewise, broadened property tax exemptions could have a similar effect. See "BOND OWNERS' RISKS".

The Bonds are not a debt of the City, the State of California or any of its political subdivisions other than the Agency, and neither the City, State, nor any of its political subdivisions other than the Agency is liable. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limit or restriction on the amount of debt.

Senior Obligations

The Bonds are secured by a pledge of Subordinate Tax Revenues (as described herein). The Agency has previously issued the 2003 Bonds and 2007 Bonds, which are Senior Bonds as to the Bonds, and are secured by "Tax Revenues" as defined in the Indenture under which they were issued. The Subordinate Tax Revenues are comprised of same tax increment revenues comprising the Tax Revenues, however the Subordinate Tax Revenues are those revenues net of debt service on the Senior Bonds. The outstanding balance of the 2003 Bonds is \$8,315,000 and of the 2007 Bonds is \$10,835,000. See "THE BONDS - Debt Service Schedules" above for the remaining annual debt service due on the 2003 Bonds and the 2007 Bonds. See also "THE AGENCY AND THE REDEVELOPMENT PROJECT – Redevelopment Plan Limitations" herein.

No Future Senior Parity Debt. The Agency has covenanted in the Indenture that it will not issue any additional obligations secured on parity with the Senior Bonds ("**Senior Parity Debt**") for so long as any Bonds are outstanding, except that the Agency may issue Senior Parity Debt to in whole or in part refund outstanding Senior Bonds to the extent that such refunding generates annual debt service savings during each year and does not extend the maturity of the Senior Parity Debt.

Senior Tax Sharing Obligations. The Agency has entered into various agreements (the "**Pass-Through Agreements**") whereby it is obligated to pay tax increment to other taxing entities in the County. The Agency's payment obligations under the Pass-Through Agreements are payable from tax increment generated in the Redevelopment Project on a senior basis to debt service on the Bonds. The Agency also has senior priority statutory tax sharing obligations. See "THE AGENCY AND THE REDEVELOPMENT PROJECT – Pass-Through Agreements" and "– Statutory Tax Sharing."

Parity Debt

Outstanding Parity Debt. The Series A Bonds and Taxable Series B Bonds are the first two series of bonds to be issued under the Indenture.

Future Parity Debt. In addition to the Bonds, the Agency may issue or incur other obligations secured and payable on parity with the Bonds. In such event, the Agency must comply with the requirements of the Indenture relating to Parity Debt, including the requirement that the Gross Tax Revenues estimated to be received for the then current Bond Year based on the most recent assessed valuation of property in the Redevelopment Project as evidenced in the written records of the County, plus (at the option of the Agency) the Additional Allowance, shall be at least equal to one hundred thirty percent (130%) of (i) Maximum Annual Debt Service on all Bonds which will be Outstanding immediately following the issuance of such Parity Debt, plus (ii) Maximum Annual Debt Service on all Senior Bonds which will be Outstanding immediately following the issuance of such Parity Debt, plus (iii) amounts paid with respect to the most recent fiscal year for the Senior Pass-Through Agreements. Notwithstanding any other provision of this Indenture, for purposes of the calculation of Subordinate Tax Revenues under this paragraph (b), (i) the tax rate for the property in the Redevelopment Project shall be assumed to be one percent (1%), and (ii) if the most recent assessed valuation of the property in the Redevelopment Project includes an adjustment upward of two percent (2%), then the assessed valuation of the property in the Redevelopment Project during the base year for the Redevelopment Plan shall also be adjusted upward to reflect any upward adjustment to the base year made by the County for the calculation of Subordinate Tax Revenues, such adjustment not to exceed two percent (2%).

“Gross Tax Revenues” means all taxes pledged and annually allocated within the Plan Limit, following the Closing Date, and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and including that portion of such taxes otherwise required by Section 33334.3 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 Bonds, if any, and that portion of any Parity Debt (including applicable reserves and financing costs) issued to finance amounts deposited in the Low and Moderate Income Housing Fund for use pursuant to Section 33334.2 of the Law to increase or improve the supply of low and moderate income housing within or of benefit to the Project Area; but excluding all other amounts of such taxes (if any) (i) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.3 of the Law for increasing and improving the supply of low and moderate income housing, (ii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Code and (iii) amounts payable by the Agency pursuant to the Senior Tax Sharing Agreements and Section 33607.5 and 33607.7 of the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds, Parity Debt and Senior Bonds.

“Additional Allowance” means, as the date of calculation, (i) the amount of Subordinate Tax Revenues which, as shown in a Report, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in the Project Area due to either (a) construction which has been completed but not yet reflected on the tax rolls, or (b) transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls. For purposes of this definition, the term “increases in the assessed valuation” means the amount by which the assessed valuation of taxable property in the Project Area is estimated to increase above assessed valuation of taxable property in the Project Area (as evidenced on the written records of the Yolo County Auditor-Controller) as of the date in which such calculation is made.

For all the requirements that must be met for the issuance of Parity Debt, see “APPENDIX D - Summary of Certain Provisions of the Indenture.”

Reserve Account

The Bonds are also secured by the Reserve Account established pursuant to the Indenture, and maintained in an amount equal to the Reserve Requirement. The Reserve Account is required to be increased upon issuance of Parity Debt. Amounts on deposit in the Reserve Account are not available to pay debt service on Senior Bonds.

The **“Reserve Requirement”** is defined in the Indenture to be, as of the date of any calculation, the lesser of (a) Maximum Annual Debt Service on such Bonds (including any Parity Debt), or (b) 125% of average Annual Debt Service on such Bonds (including any Parity Debt), or (c) 10% of the Outstanding principal amount of such Bonds (including any Parity Debt).

In the event that the amount on deposit in the Reserve Account becomes less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency shall transfer to the Trustee an amount of available

Subordinate Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. Amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in such order of priority, on any date which the principal of or interest on the Bonds or any additional Parity Debt becomes due and payable, in the event of any deficiency at any time in any of such accounts, or at any time for the retirement of all the Bonds or any additional Parity Debt then Outstanding. So long as no Event of Default has occurred and be continuing, any amount in the Reserve Account in excess of the Reserve Requirement preceding each Interest Payment Date shall be withdrawn from the Reserve Account by the Trustee and deposited in the Interest Account on or before the Interest Payment Date.

THE AGENCY AND THE REDEVELOPMENT PROJECT

In 1971, the City Council activated the Redevelopment Agency of the City of Davis and serves as its governing board. The Redevelopment Plan for the Davis Redevelopment Project was adopted in 1987.

The Agency is governed by a five member board which consists of the five members of the City Council of the City. The Mayor who acts as Chairperson of the Agency is appointed by the City Council. The current City Council and Agency members and term expiration dates are as follows.

<u>Board Member</u>	<u>Term Expires</u>
Joe Krovoza, Chairperson	November 2014
Rochelle Swanson, Vice Chairperson	November 2014
Sue Greenwald, Agency Member	November 2012
Stephen Souza, Agency Member	November 2012
Daniel Wolk, Agency Member	June 2012

Principal Agency staff, as designated in the Agency's bylaws, are as follows:

Paul Navazio, Interim Executive Director and Finance Director. Paul Navazio is currently serving as Interim Executive Director of the Agency and City Manager. Previously, Mr. Navazio served as the Assistant City Manager and he currently is also the Finance Director of the City. Prior to that, he served as Finance Director for the City of Berkeley from 1998 to 2004, and acted as the Budget Manager for the City of Oakland between 1992 and 1998. Mr. Navazio has more than 21 years of finance and budget experience, and he earned a Masters Degree in Finance and Public Policy from the University of California, Davis.

Mr. Navazio is actively involved with several professional affiliations, such as the League of California Cities, Government Finance Officers' Association and the California Society of Municipal Finance Officers. He is currently the Presidential Appointee for the Revenue and Taxation Policy Committee for the League of California Cities.

Agency Powers and Duties

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

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

The Agency may, out of the funds available to it for such purposes, pay for all or part of the value of land and the cost of buildings, facilities, structures or other improvements to be publicly owned, to the extent, among other things, that such improvements are of benefit to the Project and no other reasonable means of financing is available. The Agency must sell or lease remaining property acquired by it within the Project for redevelopment by others in strict conformity with the Redevelopment Plan, and may specify a period within which such redevelopment must begin and be completed. The Redevelopment Plan does provide for the Agency to exercise the power of eminent domain in certain circumstances.

The Redevelopment Plan provides for the participation by owners of property located in the Project by giving owners the opportunity to retain their existing properties, acquire other properties, rehabilitate existing improvements, develop property or sell properties to the Agency. Such participation may be secured by a binding agreement between the Agency and the owner by which the owner agrees to rehabilitate, develop and use and maintain the property in conformance with the Redevelopment Plan.

Statement of Indebtedness

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

Each statement of indebtedness is filed on a form prescribed by the State Controller and specifies, among other things: (i) the total amount of principal and interest payable on all loans, advances or indebtedness (including the Bonds and other Agency debt) (the "Debt"), both over the life of the Debt and for the current fiscal year, and (ii) the amount of "available revenue" as of the end of the previous fiscal year.

"Available Revenue" is calculated by subtracting the total payments on Debt during the previous fiscal year from the total revenues (both tax increment revenues and other revenues) received during the previous fiscal year, plus any carry-forward from the prior fiscal year. Available Revenue includes amounts held by the Agency and irrevocably pledged to the payment of Debt other than amounts set aside for low- and moderate-income housing.

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

The statement of indebtedness constitutes prima facie evidence of the indebtedness of the Agency; however, the County Auditor may dispute the statement of indebtedness in certain cases. Section 33675 of the Redevelopment Law provides for certain time limits controlling any dispute of the statement of indebtedness, and allows for Superior Court determination of such dispute if it cannot be resolved by the Agency and the County. Any such action may only challenge the amount of the Debt as shown on the statement, and not the validity of any Debt or its related contract or expenditures. No challenge can be made to payments to a trustee in connection with a bond issue or payments to a public agency in connection with payments by that public agency with respect to a lease or bond issue.

The Agency's October 1, 2010 Statement of Indebtedness included outstanding obligations sufficient to collect all of the tax increment currently generated in the Redevelopment Project for fiscal year 2010-11. The Agency expects that its future Statements of Indebtedness

will also include outstanding obligations sufficient to collect all of the tax increment generated in the Redevelopment Project during the applicable fiscal year.

The Redevelopment Project

The Redevelopment Project encompasses approximately 1,435 acres of land in the central and southeasterly portion of the incorporated area of the City. The City is approximately 15 miles west of Sacramento along Interstate 80. The Redevelopment Project is about 70% privately-owned with the remaining lands in public streets, rights-of-way, parks and public facilities.

There are three distinct sub-areas within the Redevelopment Project, as described below.

Sub-area 1: Olive Drive. Sub-area 1 contains a mix of single and multi-family residential units and commercial light industrial uses, bounded by the Southern Pacific Railroad (SPRR) right-of-way to the northwest and north, the I-80 freeway to the southeast, and the City limits (along the centerline of Putah Creek) to the southwest. The primary freeway interchange providing access to the central portions of Davis (via Richards Boulevard) abuts the southeasterly Sub-area 1 boundary, and three of the freeway ramps extend into the Sub-area.

Sub-area 2: Central Davis. The Old City Core Sub-area includes the downtown central business district; an adjacent older residential neighborhood to the west; the City's community center facilities (bounded by Russell Boulevard and A, Seventh, and B Streets); an enclave of neighborhood commercial uses lying south of East Eighth Street, between G Street, and the north-south trackage of the SPRR right-of-way; and, a large area of mixed commercial and industrial lands to the east. It is generally bounded by: Fifth Street to the north (with the exception of the civic center and neighborhood commercial enclave areas previously noted); the parcels on the east side of Cantrill Drive to the east; the main eastwest line of the SPRR right-of-way and First Street to the south; and A Street to the west. Sub-area 2 lies north of Sub-area 1, and adjacent to the easterly edge of the University of California campus.

Sub-area 3: South Davis. This final (and largest) Sub-area encompasses the majority of the incorporated area of Davis lying south of the I-80 corridor. Sub-area 3 is bounded by the Pioneer Park neighborhood and the El Macero Country Club development to the east and southeast; the north fork of Putah Creek and a Yolo County mobile home park to the south and the southwest. Existing land uses in Sub-area 3 include: an industrial park along Research Park Drive; two satellite commercial districts (including restaurants and service stations oriented toward the two I-80 interchanges); several large residential subdivisions; a 100,000 square foot neighborhood commercial shopping center anchored by a grocery store; and an automobile center.

Land use in the Redevelopment Project for fiscal year 2010-11 is shown below.

**TABLE 3
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Land Use Summary – Fiscal Year 2010-11**

	Parcels	Taxable Value	Percent of Total
Residential	2,182	\$928,118,638	66.31%
Commercial	238	275,392,467	19.68
Industrial	24	31,416,754	2.24
Vacant Land	61	21,941,621	1.57
Other	155	43,257,763	3.09
Total Secured	2,660	\$1,300,127,243	92.89%
Unsecured / State Assessed		<u>\$99,464,382</u>	<u>7.11%</u>
Grand Total		\$1,399,591,625	100.00%

Source: Fraser & Associates

Redevelopment Plan Limitations

The Redevelopment Plan for the Redevelopment Project was originally adopted on November 25, 1987 by Ordinance No. 1454. The Redevelopment Project has been amended three times:

- On December 14, 1994, the City Council adopted Ordinance No. 1782 to amend the Redevelopment Plan in compliance with AB 1290.
- On December 15, 1999, the City Council adopted Ordinance No. 2014, to amend the Redevelopment Plan to extend certain time limitations as contemplated by the Redevelopment Law.
- On March 19, 2003, the City Council adopted Ordinance No. 2111, to amend certain time and financial limits contained in the Redevelopment Plan.

The current time and financial limits for the Redevelopment Project are as follows:

**REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Redevelopment Plan Limits**

Limit	
Debt Establishment	11/25/2017
Plan Effectiveness	11/25/2027
Receive Increment/Debt Repayment	11/25/2037
Bonded Debt Limit	\$103 million
Cumulative Tax Increment Limit	\$350 million

The Agency reports that it has received \$96.8 million in cumulative gross tax increment for the Redevelopment Project from fiscal year 1986-87 through fiscal year 2009-10. The Fiscal Consultant estimates that the Agency will reach the tax increment limit in fiscal year 2023-24, assuming 4% annual growth in assessed values; assessed values increased an average of approximately 10% per year between fiscal year 2002-03 and 2009-10. The Agency has covenanted in the Indenture to take certain actions that are designed to ensure that, notwithstanding the tax increment cap, there will be sufficient Subordinate Tax Revenues to pay debt service on the Bonds when due, including a covenant that it will file annually with the Trustee on or prior to June 1 of each year a Written Certificate of the Agency certifying: (i) that Gross Tax Increment received by the Agency through the date of such certificate, combined with the amount remaining to be paid on all outstanding obligations of the Agency payable from Gross Tax Increment, to the extent the amounts payable on such obligations are reasonably ascertainable, will not exceed the Plan Limit; To the extent that the cumulative Net Tax Increment remaining to be received under the Plan Limit, equals or exceeds 75% of the cumulative principal of and interest on all outstanding Bonds, Parity Debt and Senior Bonds, then all Excess Subordinate Tax Revenues will be deposited with the Trustee and invested in defeasance investments as set forth in clause (a) of the definition of "Permitted Investments" and may only be used to pay debt service or call bonds or such outstanding obligations. See Appendix D – "Summary of Certain Provisions of the Indenture – Definitions" and " – Other Covenants of the Agency – Plan Limit." The covenant is intended to cause accumulation of Subordinate Tax Revenues prior to capture of Subordinate Tax Revenues under the terms of a similar provision in the Senior Bonds Indenture. While the Agency expects that under such circumstances Subordinate Tax Revenues would be accumulated in sufficient amounts to pay the Bonds prior to the Senior Bonds, there can be no guaranty.

Outstanding Indebtedness of the Redevelopment Project

Bonded Debt. The Agency has previously issued the 2003 Bonds and 2007 Bonds, which are Senior Bonds as to the Bonds. The outstanding balance of the 2003 Bonds is \$8,315,000 and of the 2007 Bonds is \$10,835,000. See "THE BONDS - Debt Service Schedules" above for the remaining annual debt service due on the 2003 Bonds and the 2007 Bonds. The Agency has covenanted in the Indenture that it will not issue any Senior Parity Debt for so long as any Bonds are outstanding, except for possible refunding of Senior Bonds. Upon issuance, the Bonds will be the only outstanding bonded indebtedness of the Redevelopment Project payable from Subordinate Tax Revenues.

Reimbursements of Costs. The Agency reimburses the City for various costs incurred by the City on behalf of the Agency. Payment of this obligation of the Agency is subordinate to payment by the Agency of debt service on the Bonds, the 2007 Bonds and the 2003 Bonds.

Pass-Through Agreements

The Agency has entered into various agreements (the "**Pass-Through Agreements**") whereby it is obligated to pay tax increment to other taxing entities in the County. The Agency's payment obligations under the Pass-Through Agreements are payable from tax increment generated in the Redevelopment Project on a senior basis to debt service on the Bonds. Amounts owed under the Pass-Through Agreements are not Subordinate Tax Revenues and, therefore, are not pledged to the Bonds.

The Agency has entered into pass-through agreements with the Davis Cemetery District dated September 15, 1988, and the Yolo County Flood Control and Water Conservation District dated September 6, 1988, passing through 100% of each District's share of Subordinate Tax

Revenues. The Agency's obligations under these two pass-through agreements are senior to its pledge of Subordinate Tax Revenues to pay debt service on the Bonds, the 2007 Bonds and the 2003 Bonds. Combined, the two districts receive approximately 1.25% of the tax increment generated in the Redevelopment Project.

The Agency and Yolo County have entered into a pass-through agreement dated November 20, 2001 (as amended and restated) which provides that commencing with the first fiscal year in which the Agency receives Subordinate Tax Revenues (1988/89) and continuing until the fiscal year in which the total amount of Subordinate Tax Revenues received by the Agency equals \$72 million, the Agency shall annually pass through to the County:

- (a) 80% of the amount of property taxes the County would have received on behalf of the County General Fund from property within the Redevelopment Project if there were no provisions for allocation of tax increment to the Agency.
- (b) 100% of the amount of property taxes the County would have received on behalf of the County Library Fund from property within the Redevelopment Project if there were no provisions for allocation of tax increment to the Agency.
- (c) 100% of the amount of property taxes the County would have received on behalf of the County Accumulation Capital Outlay Fund from property within the Redevelopment Project if there were no provisions for allocation of tax increment to the Agency.

After the Agency has received \$72 million in cumulative tax increment revenues, the County pass-through will increase from 80% to 100%. The Fiscal Consultant has estimated that the increase in the County payment should have occurred in fiscal year 2007-08. The County's share is equal to 26.89% of tax increment. The County has not implemented this requirement, and the Fiscal Consultant estimates that the Agency owes the County approximately \$1.4 million for the period 2007-08 through 2009-10. The Agency has tax increment fund balances to meet this obligation.

There is no negotiated pass-through agreement with the Davis Unified School District or with any other taxing entity other than those identified above. See “– Statutory Tax Sharing” below.

In addition to the Pass-Through Agreements, the Agency has certain statutory tax sharing obligations payable on a senior basis to payment of the Bonds. See “– Statutory Tax Sharing” below.

Statutory Tax Sharing

In addition to the Pass-Through Agreements, the Agency has certain statutory tax sharing obligations payable on a senior basis to payment of the Bonds. The Redevelopment Plan was amended on March 19, 2003 by Ordinance No. 2111, to revise certain time and financial limits contained in the Redevelopment Plan. Amendments to time and financial limitations in the Redevelopment Plan triggered “Statutory Tax Sharing” under Section 33607.7 of the Redevelopment Law. Statutory Tax Sharing goes into effect in the first year following the year in which the first of the revised limits would otherwise have gone into effect. The Fiscal Consultant has estimated that the first revised limit to otherwise have gone into effect under

Ordinance No. 2111 was the limit on incurring loans, advances and indebtedness which was revised from November 25, 2007, to November 25, 2017. Accordingly, Statutory Tax Sharing should have commenced with respect to the Redevelopment Project in Fiscal Year 2008-09. The Agency has an unpaid obligation to make these payments in the amount of approximately \$202,000 for the fiscal years 2008-09 and 2009-10. The Agency has tax increment fund balances to meet this obligation.

Generally speaking, pursuant to Statutory Tax Sharing, the Agency is required to pay to the affecting taxing agencies (except those that have negotiated a pass-through agreement with the Agency) percentages of tax increment generated in the Redevelopment Project as follows:

- (1) throughout the period that the Redevelopment Project is eligible to receive tax increment (beginning in fiscal year 2008-09), 25% of post housing set-aside revenues; plus,
- (2) for the 11th year of the receipt of tax increment and thereafter (beginning in fiscal year 2018-19), 21% of revenues in excess of revenues based on assessed values in the Redevelopment Project for the 10th year; plus,
- (3) for the 31st year of the receipt of tax increment and thereafter, 14% of revenues in excess of revenues based on assessed values in the Redevelopment Project for the 30th year; this tier of Statutory Tax Sharing will not apply to the Redevelopment Project because the 31st year will occur after the final date to receive increment in the Redevelopment Project (November 25, 2037).

The foregoing percentage amounts are calculated based on increases in assessed value of the Redevelopment Project commencing with a base year determined, initially, as of the date the first revised limit would otherwise have gone into effect and, thereafter, based on new base years with respect to the percentages effective in the eleventh year and thirty-first year, respectively. As indicated, amounts specified as payable to taxing agencies are to be computed after deducting the housing set-aside amount.

The Agency has not requested or received subordination of its Statutory Tax Sharing obligations to payment of debt service on the Bonds, the 2007 Bonds or the 2003 Bonds.

Major Property Owners

Within the Redevelopment Project, the following are the largest property taxpayers in terms of secured assessed valuation. Based on fiscal year 2010-11 taxable value valuations, the 10 largest taxpayers represent approximately 13.85% of the total project area secured taxable value.

**TABLE 4
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Largest Property Taxpayers
Fiscal Year 2010-11**

Assessee	Parcels	Type of Use	2010-11 Secured ⁽¹⁾	Unsecured	2010-11 Total Taxable Value ⁽¹⁾	% of Total Value ⁽²⁾	% of Incremental Value ⁽²⁾
Sequoia Equities-Cypress	2	Residential	\$44,025,623	\$ 0	\$44,025,623	3.15%	4.22%
United Cable Telev of California Inc.	1	Cable Company	0	35,234,905	35,234,905	2.52	3.38
Kirkwood Village	1	Residential	33,598,700	0	33,598,700	2.40	3.22
Olive Drive Partners	1	Residential	22,341,180	0	22,341,180	1.60	2.14
Ten Davis	2	Office	15,171,227	0	15,171,227	1.08	1.46
Kaiser Foundation Health Plan Inc.	4	Institutional	15,103,796	0	15,103,796	1.08	1.45
5th & G Plaza Inc.	3	Commercial	13,924,919	0	13,924,919	0.99	1.34
Walnut Park Apartments	1	Residential	13,569,992	0	13,569,992	0.97	1.30
Renaissance Park 176 LLC	1	Residential	11,947,833	0	11,947,833	0.85	1.15
Lee Dong K et al	1	Commercial	11,333,511	0	11,333,511	0.81	1.09
TOTAL			\$181,016,781	\$35,234,905	\$216,251,686	15.45%	20.75%

(1) Based on ownership of locally-assessed property.

(2) Based on 2010-11 Project Area taxable value of \$1,399,591,625 and incremental value of \$1,042,280,273.

Source: Records of Yolo County

SUBORDINATE TAX REVENUES AND DEBT SERVICE COVERAGE

General

Yolo County calculates tax increment to redevelopment project areas by applying applicable tax rates to incremental taxable values. In calculating incremental values, the County is allowed to escalate the real property portion of the base year value by an inflation factor of up to 2% per year. This approach is contrary to the provisions of the Redevelopment Law and the common practice of most California counties. The County also allocates unitary revenue on the basis of revenues received in 1987-88, adjusted by the actual growth or decline in unitary revenues on a countywide basis. Tax increment generated from the secured tax roll is allocated based on 100% of the County calculated levy. The method is often referred to as the Teeter Plan. Under the Teeter Plan, taxing entities and redevelopment projects are shielded from the impact of delinquent property taxes. The County does adjust secured tax increment payments for roll corrections, such as refunds of property taxes due to successfully appealed assessments. Such adjustments are made on a situs basis. Agency tax increment can therefore be adjusted based on changes to the roll that occur within the boundaries of the Redevelopment Project. Tax increment generated from the application of the 1% tax rate to the unsecured incremental value of a project area is based on the actual collections of unsecured revenues on a county-wide basis.

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 assessor have presented their arguments, the appeals board makes a final decision on the proper assessed value. The appeals board may rule in the assessor's favor, in the applicant's favor, or the Board may set their own opinion of the proper assessed value, which may be more or less than either the assessor's opinion or the applicant's opinion.

Any reduction in the assessment ultimately granted applies to the year for which the application is made and may also affect the values in subsequent years. Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Current year values may also be adjusted as a result of a successful appeal of prior year values. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund for overpayment.

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.

Appeals may also be filed under Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property shall be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Significant reductions have taken place in some counties due to declining real estate values. Reductions made under this code section may be initiated by the County Assessor or requested by the property owner. After a roll reduction is granted under this section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and it may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See "LIMITATIONS ON SUBORDINATE TAX REVENUES".

Due to the impact that assessment appeals can have on the taxable values and tax increment revenues of a project area, the Fiscal Consultant conducted a review of recently resolved and open appeals. Based on information provided by the Yolo County Assessor's Office, the following represent the open appeals in the Redevelopment Project.

**TABLE 5
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Open Appeals**

Assessee APN	Roll Value	Applicant Value	Requested Reduction	Estimated Resolved Value	Estimated Reduction
069-370-023	\$ 785,994	\$ 716,013	\$ 69,981	\$ 746,694	\$ 39,300
070-241-014	2,367,992	1,723,029	644,963	2,249,592	118,400
070-242-005	4,146,716	3,096,946	1,049,770	3,939,380	207,336
070-242-006	2,927,876	2,070,151	857,725	2,781,482	146,394
070-254-006	935,344	720,745	214,599	888,577	46,767
069-470-021	840,000	750,000	90,000	798,000	42,000
069-290-057	1,684,842	506,000	1,178,842	1,600,600	84,242
068-010-007	1,388,755	600,000	788,755	1,319,317	69,438
068-010-025	6,785,214	3,350,000	3,435,214	6,445,953	339,261
069-070-006	2,472,429	1,265,700	1,206,729	2,348,808	123,621
069-432-011	420,000	350,000	70,000	399,000	21,000
070-065-010	3,009,881	2,000,000	1,009,881	2,859,387	150,494
071-404008	355,521	200,000	155,521	337,745	17,776
070-073-002	750,000	535,000	215,000	712,500	37,500
068-010-008	2,075,868	1,055,000	1,020,868	1,972,075	103,793
069-070-032	2,943,373	1,848,517	1,094,856	2,796,204	147,169
070-280-019	1,507,427	1,119,658	387,769	1,432,056	75,371
070-321-008	382,027	275,541	106,486	362,926	19,101
069-220-016	703,580	545,000	158,580	668,401	35,179
070-214-002	1,700,959	1,100,000	600,959	1,615,911	85,048
069-300-057	11,237,208	8,403,410	2,833,798	10,675,348	561,860
071-405-027	32,972,529	21,432,143	11,540,386	31,323,903	1,648,626
070-233-002	2,141,904	1,710,000	431,904	2,034,809	107,095
069-400-044	611,530	564,000	47,530	580,954	30,577
070-600-001	1,936,579	1,500,000	436,579	1,839,750	96,829
069-380-044	615,500	553,950	61,550	584,725	30,775
068-010-018	3,386,896	2,234,970	1,151,926	3,217,551	169,345
070-322-08	992,229	560,000	432,229	942,618	49,611
069-081-032	424,533	360,853	63,680	403,306	21,227
070-560-007	2,407,561	1,224,000	1,183,561	2,287,183	120,378
070-560-009	1,537,422	888,000	649,422	1,460,551	76,871
069-410-035	620,000	550,000	70,000	589,000	31,000
069-321-019	557,133	427,533	129,600	529,276	27,857
069-290-059	4,594,956	2,200,000	2,394,956	4,365,208	229,748
069-370-034	760,000	647,000	113,000	722,000	38,000
069-323-014	416,992	370,000	46,992	396,142	20,850
069-300-011	11,354,925	7,380,700	3,974,225	10,787,179	567,746
069-300-014	31,945,342	20,764,471	11,180,871	30,348,075	1,597,267
070-323-012	975,657	588,000	387,657	926,874	48,783
068-050-031	1,221,098	650,000	571,098	1,160,043	61,055
069-300-045	1,271,375	444,521	826,854	1,207,806	63,569
069-433-012	475,000	445,000	30,000	451,250	23,750
	\$150,640,167	\$97,725,851	\$52,914,316	\$143,108,159	\$7,532,008

Source: Fraser & Associates

The Fiscal Consultant reports there are 36 applicants that have filed a total of 52 appeals. If the applicants are successful, future taxable values could be reduced by \$52.9 million. In the past five years, a total of nineteen appeals were filed, with nine of these resolved that resulted in reductions in assessed value. The resolved appeals represented an average drop of approximately 10%. Based on these factors, a success factor of 5 percent was used to

estimate the impact of the appeals in the table above. This would, in total, reduce future taxable values by \$7.5 million. If the appeals are successful, this will also trigger refunds of prior year taxes paid. Since some of the outstanding appeals go back to fiscal year 2008-09, there could be multiple year refunds. Refunds could total approximately \$104,000. No reductions have been made to the tax increment projections herein for the potential appeals reductions.

Historic Assessed Values and Tax Receipts

The tables below set forth an historical summary of the Redevelopment Project's taxable valuations and tax increment revenues since fiscal year 2006-07. Taxable values have increased from \$1,223,561,718 in fiscal year 2006-07 to \$1,399,591,625 in fiscal year 2010-11. The total percentage change was 14.39% over the four-year period. The average annual percentage change in values was 3.42%.

**TABLE 6
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Historic Assessed Values**

Fiscal Year	Locally-Assessed Secured Value	SBE & Unsecured Value	Total Taxable Value	Percentage Change	Base Year Value ⁽¹⁾	Total Incremental Value
2010-11	\$1,300,127,243	\$99,464,382	\$1,399,591,625	0.98%	\$357,311,352	\$1,042,280,273
2009-10	1,289,715,678	96,320,416	1,386,036,094	3.66	358,113,380	1,027,922,714
2008-09	1,239,286,707	97,784,124	1,337,070,831	3.81	351,477,919	985,592,912
2007-08	1,196,356,557	91,622,528	1,287,979,085	5.26	325,267,650	962,711,435
2006-07	1,135,398,469	88,163,249	1,223,561,718	N/A	338,594,769	884,966,949
Total Percentage Change				14.39%		
Average Percentage Change				3.42%		

(1) The County escalates the real property portion of the base year value by up to 2% per year.
Source: Yolo County Auditor-Controller Office

The following table provides information on the historical receipt of tax increment revenues in the Redevelopment Project. The initial County levy is first compared to the actual receipt of tax increment exclusive of supplemental revenues to determine collection trends. Both the levy and receipts amounts exclude property tax administrative fees. Actual receipts of tax increment for fiscal years 2006-07 through 2009-10 range from 98.97% to 100.4% of the levy. On average during this period, receipts equaled approximately 99.88% of the levy. The reason that actual receipts vary from the levy is because the County allocates unsecured values on the basis of actual revenue received, including a share of prior year unsecured revenues. The County also reduces tax increment for roll corrections, which includes refunds from successful assessment appeals.

Supplemental property tax receipts are also shown in the following table. Supplemental taxes are a function of new construction or changes of ownership since the last property tax lien date. Supplemental property taxes equaled \$329,793 in fiscal year 2009-10. When supplemental revenues are included, receipts have averaged 103.86% of the levy between fiscal years 2006-07 through 2009-10.

TABLE 7
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Historical Tax Increment Levy and Receipts

Fiscal Year	Levy per County (1)	Tax Increment Receipts Less Supplementals	% of Levy Received	Supplementals	Total Tax Increment Receipts (2)	% of Levy Received
2009-10	\$10,221,846	\$10,116,495	98.97%	\$329,793	\$10,446,288	102.20%
2008-09	9,810,450	9,849,038	100.39	330,376	10,179,414	103.76
2007-08	9,402,790	9,440,518	100.40	406,453	9,846,971	104.72
2006-07	8,756,108	8,738,358	99.80	454,835	9,193,193	104.99
Average Receipts to Levy			99.88%			103.86%

(1) Initial levy reported by Yolo County, net of property tax administrative fees.

(2) Receipts per Agency records net of property tax administrative fees. Does not include interest.

Source: Fraser & Associates

The Agency has no independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues. Such event could have an adverse impact on the ability of the Agency to repay the Bonds. Similarly, delinquencies in the Agency's receipt of property tax payments and the impact of bankruptcy proceedings or other delaying circumstances could have an adverse effect on the Agency's ability to make timely debt service payments.

In addition, foreclosures could impact the payment of property taxes and have an adverse effect on the Agency's ability to make timely debt service payments on the Bonds. According to DataQuick, for the following calendar years, the number of completed foreclosures (recording of a foreclosure deed) in the City of Davis were as follows: calendar year 2009: 27; and calendar year 2010: 67.

The following table presents historical Tax Revenues information.

**TABLE 8
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Historical Analysis of Tax Revenues ***

Category	2006-07	2007-08	2008-09	2009-10
Tax Increment	\$8,738,358	\$9,440,518	\$9,849,038	\$10,116,495
Supplemental Taxes	454,835	406,453	330,376	329,793
Total Tax Increment ⁽¹⁾	9,193,193	9,846,971	10,179,414	10,446,288
Adjustments to Tax Revenue:				
Property Tax Administration Fees	98,129	123,301	138,302	149,513
Liens on Tax Increment:				
Housing Set-Aside ⁽²⁾	1,838,639	1,969,394	2,035,883	2,089,258
AB 1290 Tax Sharing ⁽³⁾	0	0	0	0
Negotiated Tax Sharing ⁽⁴⁾	2,400,191	2,570,556	2,667,755	2,726,960
Tax Revenue *	4,856,234	5,183,720	5,337,474	5,480,557

(1) Reflects actual receipts based on the records of the Agency.

(2) Estimated based on 20% of total tax increment.

(3) Payments were triggered in 2008-09, but the County has not withheld the funds.

(4) The tax sharing payments with the Davis Cemetery District, Yolo County and the Yolo County Flood Control District are senior to debt service on the 2003 Bonds, the 2007 Bonds and the Bonds.

* Tax Revenues are not net of amounts owing on the Senior Bonds and therefore do not represent amounts available to pay the Bonds.

Source: Fraser & Associates

New Development

The Subordinate Tax Revenues projections include increases in taxable values for new development activity that has recently been completed, is under construction or is planned in the Redevelopment Project. The Agency reports no significant new development currently underway.

Projected Subordinate Tax Revenues

The table below sets forth the projected taxable valuation and gross Subordinate Tax Revenues for the Redevelopment Project through fiscal year 2029-30 based on the various assumptions outlined below. The assessed values in the Redevelopment Project and the available Subordinate Tax Revenues may likely be higher or lower than what has been incorporated in the following projections.

Tax Rate: The projections assume a 1.0% tax rate; the Fiscal Consultant reports that debt service override tax rates are no longer levied in the Redevelopment Project

Assessed Value: The projections utilize fiscal year 2010-11 assessed values as reported by the County as the baseline value.

Inflation Rate: In California, real property values (land and improvements) are subject to an annual inflationary increase, as allowed under Proposition 13. The projection table assumes, with respect to the real property portion of the secured and unsecured property, a .0075% inflation factor in fiscal year 2010-11 and 2% thereafter. See "BOND OWNERS' RISK - Reduction in Inflationary Rate and Changes in Legislation." Assessed values of personal property and state-assessed (non-unitary property) are assumed to remain at their estimated fiscal year 2010-11 levels.

No New Development: The projections include no projected value of development activity.

Appeals: The projections have not made any reductions to future taxable values as a result of assessment appeals.

Housing Set-Aside: The projections assume 20% of Tax Increment generated in the Redevelopment Project will be deducted as part of the calculation of Subordinate Tax Revenues.

County Administrative Charge: The projections assume a County administrative charge equal to 1.28% of gross tax increment generated in the Redevelopment Project will be deducted as part of the calculation of Subordinate Tax Revenues.

Tax-Sharing Obligations: The projections assume the Agency's payment obligations under negotiated Pass-Through Agreements and the Statutory Tax Sharing payments will be paid prior to payment of debt service on the Bonds, the 2007 Bonds and the 2003 Bonds.

TABLE 9
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Projected Gross Tax Revenues (1)
(\$'s in thousands)

<u>Fiscal Year</u>	<u>Assessed Value Real Property (1)</u>	<u>Assessed Value Other Property (2)</u>	<u>Assessed Value Total</u>	<u>Incremental Value Over Base (3)</u>	<u>Gross Tax Increment (4)</u>	<u>Cumulative Tax Revenue (5)</u>
2010-11	\$1,328,738	\$70,854	\$1,399,592	\$1,042,280	\$10,469	\$107,247
2011-12	1,338,703	70,854	1,409,557	1,045,494	10,501	117,748
2012-13	1,365,477	70,854	1,436,331	1,065,381	10,700	128,448
2013-14	1,392,787	70,854	1,463,641	1,085,665	10,903	139,350
2014-15	1,420,643	70,854	1,491,497	1,106,356	11,109	150,460
2015-16	1,449,055	70,854	1,519,909	1,127,460	11,321	161,780
2016-17	1,478,037	70,854	1,548,890	1,148,986	11,536	173,316
2017-18	1,507,597	70,854	1,578,451	1,170,943	11,755	185,071
2018-19	1,537,749	70,854	1,608,603	1,193,338	11,979	197,051
2019-20	1,568,504	70,854	1,639,358	1,216,182	12,208	209,259
2020-21	1,599,874	70,854	1,670,728	1,239,483	12,441	221,699
2021-22	1,631,872	70,854	1,702,726	1,263,250	12,678	234,378
2022-23	1,664,509	70,854	1,735,363	1,287,492	12,921	247,299
2023-24	1,697,799	70,854	1,768,653	1,312,218	13,168	260,467
2024-25	1,731,755	70,854	1,802,609	1,337,440	13,420	273,887
2025-26	1,766,390	70,854	1,837,244	1,363,166	13,678	287,565
2026-27	1,801,718	70,854	1,872,572	1,389,406	13,940	301,505
2027-28	1,837,753	70,854	1,908,607	1,416,171	14,208	315,712
2028-29	1,874,508	70,854	1,945,362	1,443,472	14,481	330,193
2029-30	1,911,998	70,854	1,982,852	1,471,318	14,759	344,952

- (1) Prior Year Real Property increased by .0075% in 2011-12 then by 2% per year thereafter.
- (2) Includes the value of secured and unsecured personal property, and state-assessed railroad and non-unitary property.
- (3) The county escalates the base year value by 2% annually.
- (4) Based on the application of Project Area tax rates to incremental taxable value, plus actual unitary from 2009-10. (5) Includes \$96.8 million in cumulative tax increment received through 2009-10. Cumulative limit projected.

Source: The Agency; Fraser & Associates, Inc.

The table following sets forth the net amounts from which the Subordinate Tax Revenues are derived after making allowances for County collection fees, and deductions of Housing Set-Aside and negotiated and statutory tax sharing payments.

TABLE 10
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
Projected Net Tax Revenues (1)
(000's omitted)

Fiscal Year Ending	Gross Increment Tax Revenues	20% Housing Set Aside	County Admin ⁽²⁾	Senior Pass-Through	Senior Pledged Revenue	1290 Pass Through Payments ⁽³⁾	County Pass-Through ⁽⁴⁾	Senior Bonds Debt Service	Subordinate Tax Revenues
2011	\$10,469	\$(2,094)	\$(134)	\$(129)	\$8,112	\$(153)	\$(3,146)	\$(1,368)	\$3,445
2012	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,368)	3,445
2013	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,362)	3,451
2014	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,369)	3,444
2015	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,371)	3,442
2016	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,371)	3,442
2017	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,370)	3,443
2018	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,362)	3,451
2019	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,364)	3,449
2020	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,364)	3,449
2021	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,368)	3,445
2022	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,365)	3,448
2023	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,371)	3,442
2024	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,365)	3,448
2025	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,371)	3,442
2026	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,371)	3,442
2027	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,367)	3,446
2028	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,367)	3,446
2029	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,364)	3,449
2030	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,365)	3,448
2031	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,198)	3,615
2032	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,201)	3,612
2033	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	(1,192)	3,621
2034	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	-	4,813
2035	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	-	4,813
2036	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	-	4,813
2037	10,469	(2,094)	(134)	(129)	8,112	(153)	(3,146)	-	4,813

(1) Before payment of the 2003 Bonds, 2007 Bonds. Rows may not add due to rounding.

(2) Per SB 2557, reflects Redevelopment Project share of the County's property tax administrative costs.

(3) (8) AB 1290 tax sharing payments due to prior amendment to Plan.

(4) The tax sharing payments with Yolo County, the Davis Cemetery District and the Yolo County Flood Control District are senior to debt service on the 2003 Bonds, the 2007 Bonds and the Bonds.

Source: *The Agency; Fraser & Associates*

The table below sets forth the debt service and expected debt service coverage for the Bonds. Debt service coverage is shown as a percentage of fiscal year 2010-11 Subordinate Tax Revenues (which are calculated as shown in Tables 8 and 9). It is important to note that the Fiscal Consultant estimates that the Agency will reach the tax increment limit in fiscal year 2023-24, assuming 4% annual growth in assessed values. Assessed values increased an average of approximately 3.42% per year between fiscal year 2005-06 and 2010-11. The Agency has covenanted in the Indenture to take certain actions that are designed to ensure that, notwithstanding the tax increment cap, there will be sufficient Subordinate Tax Revenues to pay debt service on the Bonds when due. See Appendix D – “Summary of Certain Provisions of the Indenture – Other Covenants of the Agency – Plan Limit”.

TABLE 11
REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
2003 Bonds, 2007 Bonds and 2011 Subordinate Tax Allocation Bonds
Projected Debt Service Coverage Schedule ^{(1)*}
(Dollars in Thousands)

Fiscal Year Ending	Senior Pledged Revenue	Senior Bonds Debt Service	Senior Coverage	1290 Pass-Through Payments	County Pass-Through Payments	Subordinate Tax Revenues	2011 Bonds Debt Service	Coverage from Subordinate Revenues	Coverage All Bonds
2011	\$ 8,112	\$ 1,368	5.93	\$153	\$3,146	\$3,445	\$1,498	2.30	1.32
2012	8,112	1,368	5.93	153	3,146	3,445	1,497	2.30	1.32
2013	8,112	1,362	5.96	153	3,146	3,451	1,497	2.30	1.32
2014	8,112	1,369	5.93	153	3,146	3,444	1,496	2.30	1.32
2015	8,112	1,371	5.92	153	3,146	3,442	1,495	2.30	1.32
2016	8,112	1,371	5.92	153	3,146	3,442	1,495	2.30	1.32
2017	8,112	1,370	5.92	153	3,146	3,443	1,497	2.30	1.32
2018	8,112	1,362	5.96	153	3,146	3,451	1,497	2.31	1.32
2019	8,112	1,364	5.95	153	3,146	3,449	1,495	2.31	1.32
2020	8,112	1,364	5.95	153	3,146	3,449	1,495	2.31	1.32
2021	8,112	1,368	5.93	153	3,146	3,445	1,497	2.30	1.32
2022	8,112	1,365	5.94	153	3,146	3,448	1,497	2.30	1.32
2023	8,112	1,371	5.92	153	3,146	3,442	1,495	2.30	1.32
2024	8,112	1,365	5.94	153	3,146	3,448	1,497	2.30	1.32
2025	8,112	1,371	5.92	153	3,146	3,442	1,496	2.30	1.32
2026	8,112	1,371	5.92	153	3,146	3,442	1,498	2.30	1.32
2027	8,112	1,367	5.93	153	3,146	3,446	1,496	2.30	1.32
2028	8,112	1,367	5.93	153	3,146	3,446	1,498	2.30	1.32
2029	8,112	1,364	5.95	153	3,146	3,449	1,496	2.31	1.32
2030	8,112	1,365	5.94	153	3,146	3,448	1,495	2.31	1.32
2031	8,112	1,198	6.77	153	3,146	3,615	1,500	2.41	1.35
2032	8,112	1,201	6.75	153	3,146	3,612	1,500	2.41	1.35
2033	8,112	1,192	6.81	153	3,146	3,621	1,495	2.42	1.36
2034	8,112	-	-	153	3,146	4,813	1,495	3.22	1.69
2035	8,112	-	-	153	3,146	4,813	1,500	3.21	1.69
2036	8,112	-	-	153	3,146	4,813	1,498	3.21	1.69
2037	8,112	-	-	153	3,146	4,813	-	-	-

(1) Rows may not add to the indicated totals due to independent rounding.

Source: *The Underwriter*.

BOND OWNERS' RISKS

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

To estimate the revenues available to pay debt service on the Bonds, the Agency has made certain assumptions with regard to the assessed valuation in the Project Area, future tax rates and percentage of taxes collected. The Agency believes these assumptions to be reasonable, but to the extent that the assessed valuation, the tax rates or the percentage of taxes collected are less than the Agency's assumptions, the Subordinate Tax Revenues available to pay debt service on the Bonds will, in all likelihood, be less than those projected.

Reduction in Taxable Value

Subordinate Tax Revenues allocated to the Agency are determined by the amount of incremental taxable value in the Project Area allocable to the Redevelopment Project and the current rate or rates at which property in the Redevelopment Project is taxed. The reduction of taxable values of property caused by economic factors beyond the Agency's control, such as a relocation out of the Project Area by one or more major property owners, or the transfer, pursuant to California Revenue and Taxation Code Section 68, of a lower assessed valuation to property within the Project Area by a person displaced by eminent domain or similar proceedings, or the discovery of hazardous substances on a property within the Project Area (see "Hazardous Substances," below) or the complete or partial destruction of such property caused by, among other eventualities, an earthquake (see "Seismic and Flood Considerations," below), flood or other natural disaster, could cause a reduction in the Subordinate Tax Revenues securing the Bonds. Property owners may also appeal to the County Assessor for a reduction of their assessed valuations or the County Assessor could order a blanket reduction in assessed valuations based on then current economic conditions.

Reduction in Inflationary Rate and Changes in Tax Levy Legislation

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

payments of principal of and interest on the Bonds. See “THE PROJECT AREA - Appeals of Assessed Values.”

The County's current policy is to allocate 100 percent of the Project Area's tax increment revenues to the Agency with no offset for taxpayer delinquencies, taxable value adjustments, refunds due to successful assessment appeals or tax roll correction. However, the County could change this policy in the future and begin making deductions for such delinquencies, adjustments, refunds and corrections from tax increment revenues allocated in the Agency. In that event, substantial delinquencies in the payment of property taxes, substantial property tax refunds, significant reductions in taxable value or significant tax roll corrections due to such causes could impair the timely receipt by the Agency of Subordinate Tax Revenues.

Levy and Collection

The Agency has no independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Subordinate Tax Revenues and, accordingly, could have an adverse impact on the ability of the Agency to make debt service payments on the Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency's ability to make timely debt service payments on the Bonds. The County currently allocates 100% of the Subordinate Tax Revenues collected on the secured property tax roll to the Agency, regardless of the actual amount of payments made by taxpayers (see “Teeter Plan” below). The County currently allocates Subordinate Tax Revenues collected with respect to unsecured property to the Agency based upon the tax increment actually collected.

Teeter Plan

The Board of Supervisors of Yolo County 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. Taxes and assessment installments under the 1915 Act are collected by the County and distributed under the Teeter Plan. Under the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected secured taxes credited to its fund, in the same manner as if the amount credited had been collected. Unsecured taxes are not normally covered under the Teeter Plan. Redevelopment agencies in the County can expect to receive the full increment of the current year's secured assessed valuation, less the base year's secured assessed valuation, with no adjustments for delinquencies, refunds or adjustments.

Tax Increment Cap

As noted above under the caption “THE AGENCY AND THE REDEVELOPMENT PROJECT – Redevelopment Plan Limitations,” the Project Area is subject to a limitation on the amount of cumulative tax increment (the “**tax increment cap**”). The Agency is unable to predict whether it will meet the tax increment cap prior to the final maturity date of the Bonds. However, the Fiscal Consultant projects in the Fiscal Consultant Report that the Agency will, assuming 4% annual growth in assessed values, reach the tax increment cap in fiscal year 2023-24, which is prior to the final maturity date of the Bonds. Assessed values in the Project Area grew an average of approximately 10% between fiscal years 2002-03 and 2009-10.

Whether or not the tax increment cap is met prior to the final maturity of the Bonds will depend on the growth of assessed value, which, in turn, depends on several factors, including the pace of real estate development, the number and types of sales of properties and the prices

at which such properties are sold, and the overall strength of the real estate market. Once the tax increment cap is met, absent an amendment to the Redevelopment Plan that increases the tax increment cap, the Agency will no longer receive any tax increment, and, accordingly, no Subordinate Tax Revenues will be available to pay debt service on the Bonds.

The Agency has covenanted in the Indenture to take certain actions that are designed to ensure that, notwithstanding the tax increment cap, there will be sufficient Subordinate Tax Revenues to pay debt service on the Bonds when due. See Appendix D – “Summary of Certain Provisions of the Indenture – Other Covenants of the Agency – Plan Limit.” The covenant is intended to cause accumulation of Subordinate Tax Revenues prior to capture of Subordinate Tax Revenues under the terms of a similar provision in the Senior Bonds Indenture. While the Agency expects that under such circumstances Subordinate Tax Revenues would be accumulated in sufficient amounts to pay the Bonds prior to the Senior Bonds, there can be no guaranty.

Reduction in Inflationary Rate

Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Pursuant to California law, the annual inflationary adjustment is applied to all secured and unsecured real property value and is not applied to secured or unsecured personal property value. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation six times: in fiscal year 1983-84, 1%; in fiscal year 1995-96, 1.19%; in fiscal year 1996-97, 1.11%; in fiscal year 1999-00, 1.85%; in fiscal year 2004-05, 1.867% and in fiscal year 2010-11, -0.237%. Fiscal year 2010-11 is the first time the inflationary value adjustment has been a negative number. Furthermore, for the 2011-12 fiscal year, the California State Board of Equalization has determined that Consumer Price Index is 0.753% and this will be the Proposition 13 inflation factor applied to the tax roll for 2011-12. The Agency is unable to predict if any adjustments to the full cash value base of real property within the Project Area, whether an increase or a reduction, will be realized in the future.

Article XIII A of the California Constitution, which significantly affected the rate of property taxation, was adopted under California’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might alter the calculation of tax increment revenues, reduce the property tax rate, or broaden property tax exemptions.

Levy and Collection

The Agency does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Subordinate Tax Revenues, and accordingly, could have an adverse impact on the ability of the Agency to repay the Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency's ability to make timely debt service payments.

Parity Debt

As described in “SECURITY FOR THE BONDS – Parity Debt,” the Agency may issue or incur obligations payable from Subordinate Tax Revenues on a parity with its pledge of

Subordinate Tax Revenues to payment of debt service on the Bonds. The existence of and the potential for such obligations increases the risks associated with the Agency's payment of debt service on the Bonds in the event of a decrease in the Agency's collection of Subordinate Tax Revenues.

Factors Relating to Private Lending Constraints

Since approximately 2003, many homeowners have financed the purchase of their new homes using loans with little or no downpayment and with adjustable interest rates that are subject to being reset at higher rates on a specified date or on the occurrence of specified conditions. Some homeowners who purchased their homes with “sub-prime loans” have begun to experience difficulty in making their loan payments due to automatic rate increases on their adjustable loans and rising interest rates in the market, which could lead to increased foreclosures.

In addition, as a result of increasing defaults on “sub-prime loans” over the past few years, credit has become more difficult and more expensive to obtain, not only in the residential market, but also in the commercial, retail and industrial sectors. Rising foreclosure levels and unavailability of loans for the purchase and development of real property in the Project Area may adversely impact assessed values.

State Budget Deficit-ERAF

State Budgets. Information about the State budget and State spending is regularly available from various State offices or on the applicable websites, including the Department of Finance, the Office of the Legislative Analyst and the State Treasurer. However, none of such information is incorporated by such reference.

Historical ERAFs. In connection with its approval of the State budget for fiscal years 1992-93, 1993-94, 1994-95, 2002-03, 2003-04, 2004-05, 2005-06 and 2008-09, the State Legislature enacted legislation which, among other things, reallocated funds from redevelopment agencies to school districts by shifting a portion of each agency’s tax increment, net of amounts due to other taxing agencies, to school districts for such fiscal years for deposit in the Education Revenue Augmentation Fund (“**ERAF**”). The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment project areas on a collective basis, and was not allocated separately to individual project areas.

Fiscal Year 2008-09. In 2008, the State Legislature adopted, and the Governor of the State signed, legislation, Chapter 751, Statutes 2008 (AB 1389) (“**AB 1389**”), that among other things required redevelopment agencies to pay into ERAF in fiscal year 2008-09, prior to May 10, 2009, an aggregate amount of \$350 million. On April 30, 2009, a California superior court in *California Redevelopment Association v. Genest* (County of Sacramento) (Case No. 34-2008-00028334) held that the required payment by redevelopment agencies into ERAF in fiscal year 2008-09 pursuant to AB 1389 violated the California Constitution and invalidated and enjoined the operation of the California Health and Safety Code section requiring such payment. On May 26, 2009, the State filed a notice that it would appeal the decision of the superior court. On September 28, 2009, the State noticed its withdrawal of its appeal of *California Redevelopment Association v. Genest*.

Fiscal Year 2009-10 and Fiscal Year 2010-11. In connection with various legislation related to the budget for the State for its fiscal year 2009-10, in late July 2009, the State

legislature adopted, and the Governor of the State signed, Assembly Bill No. 26x4 (the “**2009 SERAF Legislation**”).

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

As noted below, the Agency timely paid the SERAF payment for fiscal year 2009-10 in the amount of \$3,202,971 and the Agency has preliminarily estimated that the SERAF Payment will be the amount of \$658,807 for fiscal year 2010-11. Pursuant to the 2009 SERAF Legislation, redevelopment agencies may use any funds that are legally available and not legally obligated for other uses, including reserve funds, proceeds of land sales, proceeds of bonds or other indebtedness, lease revenues, interest and other earned income.

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

The 2009 SERAF Legislation imposes various restrictions on redevelopment agencies that fail to timely make the required SERAF payments, including (i) a prohibition on adding or expanding project areas, (ii) a prohibition on the incurrence of additional debt, (iii) limitations on the encumbrance and expenditure of funds, including funds for operation and administration expenses, and (iv) commencing with the July 1 following the due date of a SERAF annual payment that is not timely made, a requirement that the applicable redevelopment agency allocate an additional five percent of all taxes that are allocated to the redevelopment agency under the Redevelopment Law for low and moderate income housing for the remainder of the time that the applicable redevelopment agency receives allocations of Subordinate Tax Revenues under the Redevelopment Law.

The five percent additional housing set-aside penalty provision referred to in the 2009 SERAF Legislation (the “**Penalty Set-Aside Requirement**”) would be in addition to the percentage of such Subordinate Tax Revenues already required to be used for low and moderate income housing purposes. A redevelopment agency that borrows from amounts required to be allocated to its housing set-aside funds to make required SERAF payments but does not timely repay the funds, will also be subject to the Penalty Set-Aside Requirement. If a redevelopment agency borrows funds from its low and moderate income housing fund to make the SERAF payment in either year, and does not repay the funds within the specified time frame, it would be subject to the Penalty Set-Aside Requirement. Note that, if a redevelopment agency fails to comply with the foregoing described requirements in both fiscal year 2009-10 and 2010-11, the redevelopment agency will be subject to the Penalty Set-aside Requirement in both such Fiscal Years for a total of 10% additional housing set-aside penalty. The Agency’s SERAF payment for fiscal year 2009-10 was not made from the Housing Set-Aside Fund and the Agency has no plans to borrow housing set-aside funds for the fiscal year 2010-11 SERAF.

The California Redevelopment Association, the Union City Redevelopment Agency and the Fountain Valley Redevelopment Agency filed a lawsuit in Sacramento Superior Court on

October 20, 2009 challenging the constitutionality of the 2009 SERAF Legislation and seeking to prevent the State from taking redevelopment funds for non-redevelopment purposes. On May 4, 2010, the Superior Court ruled that the 2009 SERAF Legislation is constitutional. The Agency timely paid its SERAF payment by May 10, 2010. The California Redevelopment Association has appealed the judgment of the Superior Court. The appeal seeks repayment of the fiscal year 2009-10 payment and a prohibition of the second payment. The Agency cannot predict whether or not the Court of Appeal will approve or overturn the judgment of the Superior Court or whether or not the Agency will be able to recover the amount of the SERAF payment for fiscal year 2009-10 in the event the judgment of the Superior Court is overturned. Further, the Agency cannot predict whether or not such judgment will be overturned regarding the SERAF payment for fiscal year 2010-11.

The State's ability to impose future ERAF and SERAF payments on redevelopment agencies may be affected by Proposition 22, which was approved by the California electorate on November 2, 2010. Proposition 22, among other things, amends Sections 24 and 25.5 of Article XIII of the California Constitution to prohibit the State from reallocating, transferring, borrowing, appropriating or restricting the use of taxes imposed or levied by a local government solely for the local government's purposes. As applied to redevelopment agencies, Proposition 22 adds Section 25.5(A)(7) to Article XIII of the State Constitution to prohibit the State from requiring a redevelopment agency (A) to pay, remit, loan, or otherwise transfer, directly or indirectly, taxes on ad valorem real property and tangible personal property allocated to the agency pursuant to Section 16 of Article XVI of the State Constitution to or for the benefit of the State, any agency of the State, or any other jurisdiction; or (B) to use, restrict, or assign a particular purpose for such taxes for the benefit of the State, any agency of the State, or any other jurisdiction, other than (i) statutory pass through payments required by Health and Safety Code Sections 33607.5 and 33607.7 and (ii) payments for the purpose of increasing, improving, and preserving the supply of low and moderate income housing available at affordable housing cost. Although the passage of Proposition 22 will have no impact upon the Agency's obligation to pay the 2010 SERAF Amount, the State Legislative Analyst's Office ("LAO") has stated that the measure prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. No assurance can be provided that Proposition 22 will be implemented as contemplated by the LAO. In addition, Proposition 22 is subject to interpretation by the courts and there can be no assurance that the measure will not be challenged by the State or other parties or repealed by the voters of the State in the future.

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

The Proposed Budget makes the following redevelopment-related proposals (the "**RDA Provisions**"), among others:

(i) The RDA Provisions, if adopted, would eliminate the current funding mechanism for redevelopment agencies, although only limited details are provided for such a far-reaching proposal.

(ii) The RDA Provisions, if adopted, would prohibit existing agencies from creating new contracts or obligations effective upon enactment of urgency legislation.

(iii) By July 1, the RDA Provisions, if adopted, would disestablish existing redevelopment agencies and successor local agencies would be required to use the property tax revenues that redevelopment agencies would otherwise have received to retire redevelopment agency debts and contractual obligations **"in accordance with existing payment schedules"** (emphasis added).

(iv) For fiscal year 2011-12, the RDA Provisions, if adopted, would divert an estimated \$1.7 billion remaining after payment of the redevelopment agency debts and contractual obligations described in the preceding paragraph (iii) to offset State General Fund costs for Medi-Cal and trial courts. An additional estimated \$210 million would be distributed on a one-time basis to cities, counties, and special districts proportionate to their current share of the countywide property tax.

(v) For fiscal years after fiscal year 2011-12, the RDA Provisions, if adopted, would distribute the money available after payment of the redevelopment agency debt and contractual obligations described in the preceding paragraph (iii) to schools, counties, cities, and non-enterprise special districts for general uses.

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

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

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

Elements of the RDA Provisions, including the economic development program authorization, contemplate voter approval through the initiative process. It is possible that Proposition 22, which amended the State Constitution to prohibit state diversion of redevelopment agency revenues generally, will affect the State's ability to implement some of the RDA Provisions. It is possible that the Governor and the Legislature may seek voter approval of changes to the terms of Proposition 22 that are in conflict with the Proposed Budget, including the RDA Provisions.

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

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

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

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

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

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

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

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

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

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

Constitutional Protections. The Agency believes that constitutional protections against the impairment of contracts may prevent the proposed actions in the RDA Provisions from

adversely affecting the validity of the Bonds or the Agency's pledge of Subordinate Tax Revenues to secure the payment of the Bonds. Indeed, the RDA Provisions purport to provide for the payments by successor entities of existing redevelopment agencies' "debts and contractual obligations."

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

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

The Agency cannot predict the applicable scope of "contract clause" protections to the Bonds and the RDA Provisions as they may ultimately be implemented. Efforts to protect the rights of Bondholders and to enforce the terms of the Indenture, if necessary, could involve expense and delay including with respect to the determination of the applicable scope of the "contract clause" provisions.

Draft Legislation to Eliminate Redevelopment Agencies and Restrict Activities.

Draft legislation implementing the Governor's Proposed Budget was released by the Department of Finance of the State on February 23, 2011 (the "**draft legislation**"). The draft legislation has not been submitted to the Legislature, and the Agency can provide no assurances that the draft legislation will be enacted in its present form, in a different form, or at all. A brief summary of the draft legislation is set forth below, but investors are encouraged to read the entire draft legislation. The draft legislation can be obtained from the State of California's Department of Finance website at the following address (this address is provided for the convenience of investors and the website is not incorporated in this Official Statement):

http://www.dof.ca.gov/budgeting/trailer_bill_language/financial_research_and_local_government/documents/502%20RDA%20Legislation%202-23p.docx.

The draft legislation is styled as an urgency measure, which requires a two-thirds vote of each house of the Legislature for passage; urgency legislation is effective immediately upon passage and upon the signature of the Governor. It is possible that, if the draft legislation is included as a part of a complete budget package passed by the Legislature, it could be passed with only majority vote approval and still become effective immediately. The draft legislation makes it clear that its provisions would not be retroactive.

The draft legislation declares that it is the intent of the Legislature to do the following:

"(1) Bar existing redevelopment agencies from incurring new obligations that would divert any more money from core functions and dissolve all existing

redevelopment. It is the intent of the Legislature that the greatest amount of funding be realized from these actions to fund core governmental services.

(2) Beginning with 2012-13 fiscal year, allocate these funds according to the existing property tax allocation, except for enterprise special districts, to make the funds available for cities, counties, special districts, school and community college districts to provide core governmental services. As a result of these actions, it is estimated that, by fiscal year 2012-13, these local entities will receive \$1.9 billion per year in new resources to use for their core priorities.

(3) Require a successor entity to settle the affairs of the redevelopment agencies.

(4) Require the protection of contractual rights by successor agencies, which will be required to retire redevelopment agency debts in accord with existing payment schedules. No existing contractual obligations will be impaired."

The draft legislation would suspend immediately upon adoption a variety of Agency activities, including the issuance of bonds and the entering into of contracts, but would allow agencies to continue to make all scheduled payments for "enforceable obligations," which is a defined term that includes bonds. Because the draft legislation purports to prohibit the Agency from entering into new contracts after the effective date of the draft legislation, it is not clear whether the Agency would be authorized to enter into new contracts involving the expenditure of Bond proceeds for redevelopment projects after the effective date of the draft legislation.

Thereafter, on July 1, 2011, the draft legislation would dissolve all redevelopment agencies and vest their remaining powers in successor agencies. Each successor agency would be governed by a new seven-member oversight board, which would consist of, among others, a member selected by the county board of supervisors, a member selected by a non-enterprise special district, and two members selected by the county superintendent of education to represent schools and community college districts. The city council or board of supervisors that formed the redevelopment agency could select only one member of the oversight board.

Again, because the draft legislation purports to prohibit the successor agency from entering into new contracts, it is not clear whether the successor agency would be authorized to enter into new contracts involving the expenditure of Bond proceeds for redevelopment projects after the effective date of the draft legislation.

Subject to the approval of the oversight board, each successor agency would be charged with preparing "Recognized Obligation Payment Schedules" which document the minimum payments and due dates of payments required by "enforceable obligations" for each half-year fiscal period. "Enforceable obligations" include, among other things, bonds issued pursuant to the Redevelopment Law (including the required debt service, reserve set-asides and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former agency). Commencing January 1, 2012, only those payments listed in the Recognized Obligation Payment Schedule may be made by the successor agency from funds specified in the Recognized Obligation Payment Schedule. For fiscal year 2011-12, the draft of the Recognized Obligation Payment Schedule must be reviewed and certified, as to its accuracy, by an external auditor. The initial Recognized Obligation Payment Schedule must also be certified by the county auditor-controller.

The draft legislation provides that any legally binding obligations that were entered into with a pledge of tax increment will continue to have the revenues that were formerly tax

increment and which are deposited into a new “Redevelopment Obligation Retirement Fund” to be held by the successor agency. However, the draft legislation establishes a priority of allocation with respect to property tax increment that would have been allocated to each redevelopment agency without regard for existing priority relationships; these property taxes would be deposited in a Redevelopment Property Tax Trust Fund (to be administered by the county auditor-controller) and then, in fiscal year 2012-13 and following, first allocated to schools and community college districts in the amount that they would have received if the draft legislation had not been adopted into law, and, second, for payments listed in the Recognized Obligation Payment Schedule. For fiscal year 2011-12, the draft legislation provides that, before being used to make the payments listed in the Recognized Obligation Payment Schedule, the property taxes would be used to pay each successor agency’s share of an aggregate \$1.7 billion payment to a “Public Health and Safety Fund”.

Finally, the draft legislation, if adopted, would lengthen the statute of limitations (i) for the commencement of an action to review a determination or finding by a redevelopment agency or its legislative body, from 90 days to three years after the determination or finding, if such determination or finding is made after January 1, 2011, and (ii) for any action that is brought on or after January 1, 2011, to determine the validity of bonds issued by the redevelopment agency, from 60 days to three years after the date of the triggering event. Although the Agency does not believe there is any defect in the proceedings for the issuance of the Bonds that could give rise to a successful challenge and Bond Counsel is providing its opinion with respect to the Bonds as set forth in Appendix F, there could be an increased risk of a legal challenge because the Agency is issuing the Bonds after January 1, 2011, and any such challenge could affect the market price of the Bonds on the secondary market.

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

Seismic and Flood Considerations

Seismic. The areas in and surrounding the Project Area, like those in much of California, may be subject to unpredictable seismic activity. As noted in the Hazards Element of the City’s General Plan, no earthquake faults run through the Planning Area (the area in and adjacent to the City of Davis), although the San Andreas Fault System is to the west and the Eastern Sierra Fault System is to the east. Numerous quakes along these faults have been felt in the City of Davis. Major quakes occurred in 1833, 1868, 1892, 1902, 1906, and most recently in 1989, but the City suffered no significant damage. It is further stated in the General Plan that an earthquake of probable maximum intensity affecting the City would result in “slight damage in specially designed structures; considerable in ordinary substantial buildings, with partial collapse; great in poorly built structures.”

If there were to be an occurrence of significant seismic activity in the Project Area, there could be a negative impact on assessed values of taxable property in the Project Area. This would lead to a reduction in Subordinate Tax Revenues securing the Bonds. Such reduction of Subordinate Tax Revenues could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the Bonds.

Flood. The Hazards Element of the City's General Plan identifies a number of areas known to be subject to flooding in the Planning Area; the flood hazards generally consist of (i) shallow sheet flooding caused by surface water runoff during large rain storms, (ii) creeks and other waterways overflowing their banks and (iii) failure of Monticello Dam on Putah Creek (Lake Berryessa), the flooding from which would not be significantly greater than a 100-year flood because the Dam is 23 miles from the Planning Area.

If a significant flood were to occur in the Project Area, there could be a negative impact on assessed values of taxable property in the Project Area. This would lead to a reduction in Subordinate Tax Revenues securing the Bonds. A reduction of Subordinate Tax Revenues could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the Bonds.

Hazardous Substances

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

Bankruptcy

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

Loss of Tax Exemption

As discussed under the caption "OTHER INFORMATION – Tax Matters," interest on the Series A Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the Agency in violation of its covenants in the Indenture. In addition to customary requirements for maintenance of the tax-exempt status of the Series A Bonds, the Indenture includes a covenant that the Agency will treat the Series A Bonds as "qualified hedge bonds" as that term is used in the Code, which requires investment of certain net proceeds of the Series A Bonds in tax-exempt obligations until expended. The Indenture does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the Series A Bonds were to be includable in gross income for purposes of federal income taxation, the Series A Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption.

LIMITATIONS ON TAX REVENUES

Property Tax Limitations - Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors. Roll adjustments may be made by the County which would affect the Project Area assessed value, under Section 51 of the Revenue and Taxation Code.

Article XIII A further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII was adopted in August 1986 by initiative which exempts any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property from the 1% limitation. On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*).

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend Article XIII A. Proposition 58 amends Article XIII A to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amends Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence to buy or build another of equal or lesser value within two years in the same county, to transfer the

old residence's assessed value to the new residence. Under Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60. As a result, there may be a minor reduction of increases in property tax revenues because there is substantial residential use within the Project Area.

Challenges to Article XIII A

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

Property Taxes

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

Current tax payment practices by the County provide for payment to the Agency of Subordinate Tax Revenues the fiscal year, with the majority of Subordinate Tax Revenues derived from secured property paid to the Agency in mid-January and mid-May, and the majority of Subordinate Tax Revenues derived from unsecured property paid to the Agency by late September. A final reconciliation is made after the close of the fiscal year. The difference between the final reconciliation and all tax increment revenues previously allocated to the Agency is allocated in late August.

Property tax laws provide for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. To the extent such supplemental assessments occur within the Project Area, Subordinate Tax Revenues may increase.

Tax Collection Fees

Legislation enacted by the State Legislature authorizes county auditors to determine property tax administration costs proportionately attributable to local jurisdictions and to submit invoices to the jurisdictions for such costs. Subsequent legislation specifically includes redevelopment agencies among the entities which are subject to a property tax administration charge. The estimated County administration fee for fiscal year 2006-07 is approximately \$113,164. The projection of Subordinate Tax Revenues assumes an annual County administration fee of 1.28% of gross tax increment.

Unitary Taxation of Utility Property

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

AB 454 (Statutes of 1987, Chapter 921) further modifies Chapter 1457 regarding the distribution of property tax revenues derived from property assessed by the State Board of Equalization. Chapter 921 provides for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provides for a new method of establishing tax rates on State-assessed property and distribution of property tax revenues derived from State-assessed property to taxing jurisdictions within each county. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

Proposition 218

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

Future Initiatives

Article XIII A, Article XIII B and Proposition 218 were each adopted as measures that qualified for the ballot under 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.

Other Legislation Affecting Redevelopment Agencies

In 1993, the California Legislature enacted Assembly Bill 1290 ("**AB 1290**") which contained several significant changes in the Redevelopment Law. Among the changes made by AB 1290 is a provision which limits the period of time for incurring and repaying loans, advances and indebtedness which are payable from 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.

Senate Bill 211. The California Legislature enacted Senate Bill 211, Chapter 741, Statutes 2001, effective January 1, 2002 ("**SB 211**"). SB 211 provides, among other things, that 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.

SB 211 also authorizes the amendment of a redevelopment plan adopted prior to January 1, 1994, in order to extend for not more than 10 years the effectiveness of the redevelopment plan and the time to receive tax increment revenues and to pay indebtedness. Any such extension must meet certain specified requirements, including the requirement that the redevelopment agency establish the existence of both physical and economic blight within a specified geographical area of the redevelopment project and that any additional tax increment revenues received by the redevelopment agency because of the extension be used solely within the designated blighted area. SB 211 authorizes any affected taxing entity, the Department of Finance, or the Department of Housing and Community Development to request the Attorney General to participate in the proceedings to effect such extensions. It also would authorize the Attorney General to bring a civil action to challenge the validity of the proposed extensions.

SB 211 also prescribes additional requirements that a redevelopment agency would have to meet upon extending the time limit on the effectiveness of a redevelopment plan, including requiring an increased percentage of new and substantially rehabilitated dwelling units to be available at affordable housing cost to persons and families of low or moderate income prior to the termination of the effectiveness of the plan. The Agency has not amended its Redevelopment Plan pursuant to SB 211.

Senate Bill 1045. The California Legislature enacted Senate Bill 1045, Chapter 260, Statutes 2003, effective September 1, 2003 ("**SB 1045**"). SB 1045 provides, among other things, that for the purpose of calculating a redevelopment agency's tax increment limit, ERAF payments may be deducted from the amount of property tax dollars deemed to have been received by the redevelopment agency. SB 1045 also permits the Redevelopment Plan to be amended to add one year on to the duration of the Redevelopment Plan effectiveness and on to the period for collection of tax increment revenues and the repayment of debt. The Agency has not amended its Redevelopment Plan under SB 1045.

SB 1096. The Legislature has also adopted Senate Bill 1096, Chapter 211, Statutes of 2004 ("**SB 1096**"), authorizing extension of the effectiveness of redevelopment plans for an additional two years for those redevelopment plans with 20 years or less remaining. SB 1096 does not apply to the Redevelopment Plan.

See BOND OWNERS' RISKS - State Budget Deficit - ERAF." See also "DAVIS REDEVELOPMENT PROJECT - Redevelopment Plan Limitations."

OTHER INFORMATION

Continuing Disclosure

The Agency has covenanted in the Indenture for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Agency by not later than nine months following the end of the Agency's fiscal year ending June 30 (which currently would be March 31st), commencing March 31, 2012, with the report for the 2010-11 Fiscal Year (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Agency with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The notices of material events will be filed by the Agency with the Municipal Securities Rulemaking Board (and with the appropriate State information

depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below under the caption "APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The Agency has not in the last five years 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.

Litigation

At the time of delivery of and payment for the Bonds, the Agency will certify that, except as disclosed in this Official Statement, to its best knowledge there is no litigation, action, suit, proceeding or investigation, at law or in equity, before or by any court, governmental agency or body, pending against or threatened against the Agency in any way affecting the existence of the Agency or the titles of its officers to their respective offices or seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of Subordinate Tax Revenues pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, or any action of the Agency contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or the powers of the Agency or its authority with respect to the Indenture or any action of the Agency contemplated by said document, or which would adversely affect the exclusion of interest paid on the Bonds from gross income for Federal income tax purposes or the exemption of interest paid on the Bonds from California personal income taxation, nor, to the knowledge of the Agency, is there any basis therefor.

The Agency from time to time is involved in litigation in connection with carrying out its purposes. Such litigation includes a current case involving a payment default and subsequent foreclosure by the Agency on a loan made the Agency to the owner of a housing project. In April 2010 the City and the Agency were added as defendants to the previously filed case. In November 2010 amended claims were filed against the City and the Agency seeking money damages. It is unknown what type or amount of damages are sought. Neither the City or the Agency have acted on the claims. The Agency's counsel has indicated it is likely that the claims will be rejected as untimely if the matter is pursued through additional litigation and such counsel believes that the Agency's and City's actions are well founded. No prediction can be made at this time as to the final outcome of the litigation.

Tax Matters

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

The opinions set forth in the preceding paragraph are subject to the condition that the Agency comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series A Bonds in order that such interest be, or continue to be, excluded from

gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A Bonds.

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

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

Legal Opinion

Jones Hall, A Professional Law Corporation, San Francisco, California, will render an opinion with respect to the validity of the Bonds in substantially the form set forth in Appendix C hereto. Copies of such approving opinion will be available at the time of delivery of the Bonds.

In addition, Bond Counsel, in its capacity as Disclosure Counsel, will deliver to the Agency and to the Underwriter a letter in customary form concerning the information set forth in this Official Statement.

Ratings

The Bonds have received the rating of "A+" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies ("**S&P**"). Such rating reflects only the views of S&P, and an explanation of the significance of such ratings may be obtained from S&P.

There is no assurance that such rating will be retained 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 rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the Bonds.

Underwriting

The Bonds are being purchased by E.J De La Rosa & Co., Inc. and Piper Jaffray & Co. (the "**Underwriter**"). The Underwriter has agreed to purchase the Series A Bonds at a purchase price of \$12,723,384.35 (representing \$13,310,000 aggregate principal amount of the Series A Bonds, less \$199,650.00 of Underwriter's discount and less \$386,965.65 of net original issue discount) and the Series B Bonds at a purchase price of \$4,465,203.75 (representing \$4,690,000 aggregate principal amount of the Series B Bonds, less \$70,350.00 of Underwriter's discount and less \$154,446.25 of net original issue discount). The Underwriter will purchase all of the Bonds if any are purchased.

The Underwriter may offer and sell Bonds to certain dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

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APPENDIX A

GENERAL INFORMATION CONCERNING THE CITY OF DAVIS AND THE COUNTY OF YOLO

The following information is included only for the purpose of supplying general information regarding the City of Davis (the "City") and Yolo County (the "County"). This information is provided only for general informational purposes, and provides prospective investors limited information about the economic base of City and the County and its economic base. The Bonds are not a debt of the City, County, the State or any of its political subdivisions, and neither the City, County, the State nor any of its political subdivisions is liable therefor.

City of Davis

The City of Davis, located in Yolo County, is a general law city incorporated in 1917. Situated in the Sacramento Valley, the City lies 13 miles west of Sacramento on Interstate 80 and 70 miles northwest of San Francisco. Although the campus lies within an unincorporated area immediately adjacent to the City boundaries, Davis is considered to be the home of the University of California Davis, which was founded in 1905.

The City is governed by a five-member City Council, the members of which are elected by the voters of the City to serve staggered four year terms. The Mayor is a member of the City Council. The City Council appoints a City Manager who is responsible for administration of the City under the policy direction of the Council. The City provides all basic municipal services and facilities including police and fire departments and the water and sanitary sewer systems serving the City.

Yolo County

Yolo County is located in northern California, north of Sacramento and Solano Counties, and east of Napa County. Agriculture is the County's primary industry. The eastern two-thirds of the County consists of nearly level alluvial fans, flat plains, and basins, while the western third is largely composed of rolling terraces and steep uplands used for dry-farmed grain and range. The elevation ranges from slightly below sea level near the Sacramento River around Clarksburg to 3,000 feet along the ridge of the western mountains.

Population

The following table summarizes the population estimates for the City, the County and State of California as of January 1, for the years 2006 to 2010.

CITY OF DAVIS, COUNTY OF YOLO AND STATE OF CALIFORNIA POPULATION ESTIMATES

Year	City of Davis	Yolo County	State of California
2006	64,846	191,122	37,087,005
2007	65,235	194,883	37,463,609
2008	65,575	198,349	37,871,509
2009	66,077	200,931	38,255,508
2010	66,570	202,953	38,648,090

Source: California Department of Finance, Demographic Research Unit.

Employment and Industry

The unemployment rate in the Sacramento-Arden Arcade-Roseville MSA was 12.5 percent in December 2010, down from a revised 12.6% in November 2010, and above the year-ago estimate of 12.2%. This compares with an unadjusted unemployment rate of 12.3% for California and 9.1% for the nation during the same period. The unemployment rate was 12.7% in El Dorado County, 11.2% in Placer County, 12.6% in Sacramento County, and 14.3% in Yolo County.

The table below provides information about employment rates and employment by industry type for Yolo County) for calendar years 2005 through 2009.

YOLO COUNTY EMPLOYMENT BY INDUSTRY ANNUAL AVERAGES

	2005	2006	2007	2008	2009 ⁽⁴⁾
Civilian Labor Force ⁽¹⁾	92,500	94,100	98,100	98,900	99,200
Employment	87,400	89,300	92,500	91,600	88,000
Unemployment	5,200	4,900	5,600	7,300	11,200
Unemployment Rate	5.6%	5.2%	5.7%	7.3%	11.2%
Wage and Salary Employment ⁽²⁾					
Agriculture	3,800	4,100	4,300	4,700	5,200
Mining and Logging	200	300	300	300	100
Construction	5,300	5,300	5,500	4,800	4,000
Manufacturing	6,600	6,600	6,000	5,800	5,100
Wholesale Trade	4,900	5,200	5,300	5,300	4,700
Retail Trade	6,900	7,200	7,700	8,000	7,700
Transportation, Warehousing and Utilities	7,700	7,700	8,000	7,900	6,900
Information	1,100	1,100	1,200	1,100	1,100
Finance and Insurance	1,700	1,800	2,100	1,900	1,700
Real Estate and Rental and Leasing	2,000	2,000	2,200	1,600	1,300
Professional and Business Services	8,000	7,800	8,100	7,700	7,200
Educational and Health Services	6,200	6,200	6,600	6,800	6,800
Leisure and Hospitality	6,600	6,600	6,600	6,700	6,700
Other Services	1,800	1,800	2,000	2,100	2,000
Federal Government	3,800	2,500	2,300	2,300	2,200
State Government	23,000	23,200	23,700	24,000	24,200
Local Government	9,600	9,800	10,100	10,300	10,200
Total, All Industries ⁽³⁾	99,200	99,100	101,900	101,200	97,000

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

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

(3) Totals may not add due to rounding.

(4) Most recent annual available.

Source: State of California Employment Development Department.

Major Employers

The following table lists the largest employers within Yolo County.

COUNTY OF YOLO MAJOR EMPLOYERS AS OF JANUARY 1, 2011- LISTED ALPHABETICALLY

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Bel Air Markets	Broderick	Grocers-Retail
Coventry Workers Comp Svc	Broderick	Health Plans
Dennis Blazona Construction	West Sacramento	Construction Companies
Hotel At Cache Creek Resort	Brooks	Casinos
MTS Inc	West Sacramento	Records Tapes & Compact Discs-Retail
Nor-Cal Beverage Co Inc	West Sacramento	Beverages (Whls)
Norcal Beverage Co	West Sacramento	Vending Machines-Manufacturers
Pacific Coast Producers	Woodland	Canned Specialties (Mfrs)
Procurement Office	Broderick	State Government-General Offices
Raley's Inc	Broderick	Grocers-Retail
Raley's Pharmacy	Broderick	Pharmacies
Raleys	West Sacramento	Pharmacies
Rite Aid Customer Support Ctr	Woodland	Warehouses-Private & Public
Sutter Davis Hospital	Davis	Hospitals
Target Distribution Ctr	Woodland	Distribution Services
Tony's Fine Foods	Broderick	Delicatessens-Wholesale
University Of California-Davis	Davis	Schools-Universities & Colleges Academic
UPS Customer Ctr	West Sacramento	Mailing & Shipping Services
Veterinary Medical Teaching	Davis	Animal Hospitals
Walmart Supercenter	Broderick	Department Stores
West Sacramento City Council	West Sacramento	City Government-Executive Offices
Woodland Healthcare	Woodland	Clinics
Woodland Healthcare	Woodland	Hospitals
Xyratex International Inc	Broderick	Machinery-Specially Designed & Built
Yolo County District Attorney	Woodland	County Government-Legal Counsel

Source: California Employment Development Department.

Effective Buying Income

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

The following table summarizes the total effective buying income and median household effective buying income for the City, Yolo County, Sacramento County, the State and the United States for the years 2005 through 2009.

EFFECTIVE BUYING INCOME 2005 THROUGH 2009

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2005	City of Davis	\$1,339,425	\$41,462
	Yolo County	3,307,125	39,929
	Sacramento County	26,329,657	42,692
	California	720,798,106	44,681
	United States	5,894,663,363	40,529
2006	City of Davis	\$1,409,183	\$43,159
	Yolo County	3,552,478	41,518
	Sacramento County	27,988,288	44,339
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Davis	\$1,503,233	\$45,223
	Yolo County	3,825,968	43,737
	Sacramento County	29,859,233	46,334
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Davis	\$1,681,308	\$49,191
	Yolo County	4,263,925	46,874
	Sacramento County	30,497,550	46,903
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009 ⁽¹⁾	City of Davis	\$1,682,613	\$48,205
	Yolo County	4,346,413	46,900
	Sacramento County	31,079,118	47,353
	California	844,823,319	49,736
	United States	6,571,536,768	43,252

(1) Most recent annual data available.

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

Construction Activity

Provided below are the building permits and valuations for the City and the County for calendar years 2005 through 2009.

CITY OF DAVIS BUILDING PERMIT VALUATION (VALUATION IN THOUSANDS OF DOLLARS)

	2005	2006	2007	2008	2009 ⁽¹⁾
<u>Permit Valuation</u>					
New Single-family	\$11,049.6	\$7,334.5	\$6,234.8	\$3,750.6	\$3,281.0
New Multi-family	22,317.6	6,962.7	2,695.0	0.0	0.0
Res. Alterations/Additions	<u>9,774.7</u>	<u>11,130.1</u>	<u>12,670.4</u>	<u>10,836.4</u>	<u>8,603.8</u>
Total Residential	43,141.9	25,427.3	21,600.2	14,587.0	11,884.8
New Commercial	15,801.2	700.0	7,275.0	20,022.3	0.0
New Industrial	0.0	0.0	1,000.0	0.0	0.0
New Other	5,566.7	3,845.0	2,881.3	6,458.3	1,549.7
Com. Alterations/Additions	<u>14,352.2</u>	<u>13,386.9</u>	<u>7,670.0</u>	<u>14,684.9</u>	<u>22,555.6</u>
Total Nonresidential	\$35,720.0	\$17,931.9	\$18,826.2	41,165.5	24,105.3
<u>New Dwelling Units</u>					
Single Family	50	38	28	14	11
Multiple Family	<u>199</u>	<u>66</u>	<u>16</u>	<u>0</u>	<u>0</u>
TOTAL	249	104	44	14	11

(1) Most recent annual data available.

Source: Construction Industry Research Board, Building Permit Summary.

COUNTY OF YOLO BUILDING PERMIT VALUATION (VALUATION IN THOUSANDS OF DOLLARS)

	2005	2006	2007	2008	2009
<u>Permit Valuation</u>					
New Single-family	\$306,121.0	\$156,823.9	\$137,454.6	\$74,075.9	\$58,743.6
New Multi-family	38,615.6	40,860.5	15,968.3	0.0	11,821.0
Res. Alterations/Additions	<u>29,782.5</u>	<u>30,017.0</u>	<u>27,568.3</u>	<u>26,201.8</u>	<u>18,301.9</u>
Total Residential	374,519.0	227,701.4	180,991.2	100,277.7	88,866.5
New Commercial	49,448.6	45,314.2	140,563.3	87,935.4	6,199.9
New Industrial	5,588.3	13,120.8	38,384.4	2,191.0	3,515.0
New Other	24,023.8	27,110.6	25,321.6	27,607.1	15,509.7
Com. Alterations/Additions	<u>49,379.2</u>	<u>74,175.7</u>	<u>104,208.3</u>	<u>59,036.7</u>	<u>63,656.0</u>
Total Nonresidential	\$128,439.9	\$159,721.4	\$308,477.6	176,770.2	88,880.6
<u>New Dwelling Units</u>					
Single Family	1,366	785	724	338	240
Multiple Family	<u>352</u>	<u>485</u>	<u>200</u>	<u>0</u>	<u>83</u>
TOTAL	1,718	1,270	924	338	323

Source: Construction Industry Research Board, Building Permit Summary.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2009 in the City were reported to be \$446,745,000, a 9.5% decrease over the total taxable sales of \$493,862,000 reported during calendar year 2008. Figures are not yet available for 2010.

CITY OF DAVIS TAXABLE TRANSACTIONS (DOLLARS IN THOUSANDS)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2005	579	\$487,649	1,133	\$524,482
2006	592	482,074	1,137	518,192
2007	562	475,885	1,118	531,311
2008	614	426,415	1,144	493,862
2009	811	387,619	1,086	446,745

(1) Not comparable to prior years. "Retail" category now includes "Food Services".
Source: State Department of Equalization.

Total taxable sales during calendar year 2009 in the County were reported to be \$2,865,382,000, a 14.4% decrease over the total taxable sales of \$3,347,287,000 reported during calendar year 2008. Figures are not yet available for 2010.

COUNTY OF YOLO TAXABLE TRANSACTIONS NUMBER OF PERMITS AND VALUATION OF TAXABLE TRANSACTIONS (DOLLARS IN THOUSANDS)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2005	1,784	\$1,709,443	4,021	\$3,093,540
2006	1,819	1,788,729	4,059	3,189,863
2007	1,083	1,848,578	4,085	3,259,843
2008	1,933	1,778,592	4,138	3,347,287
2009	2,406	1,558,491	3,892	2,865,382

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

APPENDIX B
AGENCY'S AUDITED FINANCIAL STATEMENTS FOR
FISCAL YEAR 2009-10

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**REDEVELOPMENT AGENCY
OF THE CITY OF DAVIS
COMPONENT UNIT BASIC
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2010**

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REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Component Unit Basic Financial Statements
For The Year Ended JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board
Redevelopment Agency of the City of Davis
Davis, California

We have audited the component unit basic financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Davis, a component unit of the City of Davis, California, as of and for the year ended June 30, 2010, as listed in the table of contents. These component unit basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the component unit basic financial statements referred to above present fairly in all material respects the financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in the financial position thereof and the respective budgetary comparisons listed as part of the component unit basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, on our consideration of the Redevelopment Agency of the City of Davis internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the Component Unit Basic Financial Statements but is supplementary information required by the Government 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 supplemental information. However, we did not audit this information and we express no opinion on it.

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

Maze & Associates

December 17, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Government Accounting Standards Board Statement 34 (GASB 34) requires the City of Davis Redevelopment Agency to provide this overview of its financial activities for the fiscal year. Please read it in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

GASB 34 requires the Agency to make substantial changes to its financial statement format; one of these requirements is that the Agency provides this discussion and analysis of its financial activities for the fiscal year. Other changes will be described in the financial statement.

The Purpose of the Agency

The City of Davis Redevelopment Agency functions as a division within the City of Davis. The Agency is governed by the City Council, which sits in a separate capacity as the Agency's Board of Directors. City employees perform all the duties and functions required of the Agency. The Agency is a component unit of the City of Davis.

The Agency's purpose under California law is to eliminate urban blight in the City of Davis. The Agency is given certain power under the law to assist it in that endeavor. The Agency may condemn property under certain circumstances prescribed by the law, and it may incur indebtedness to finance its redevelopment activities. The Agency may not assess or receive property taxes, but it may receive any increases in property taxes over amounts received in the year before the property in the Agency's area became subject to redevelopment (called the Base Year). The increases are called Property Tax Increments. Twenty percent of the property tax increments received must be used to increase the supply of low- and moderate-income housing. The Agency must also make "pass through" payments to other pre-existing governmental entities within its redevelopment area, in accordance with statutory formulas.

Fiscal Year 2009/10 Financial Highlights

Financial highlights for the 2009/10 fiscal year include the following:

Agency-wide:

- At June 30, 2010 the Agency's net assets amounted to \$10.1 million. This is a decrease of \$32,146 from the prior fiscal year.
- Total Agency assets decreased \$0.8 million, to \$39.7 million and liabilities decreased \$0.7 million and totaled \$29.6 million in fiscal 2010.
- Total Agency revenues increased \$0.1 million to \$11.3 million and expenses increased \$5.0 million to \$11.3 million in fiscal 2010.
- The Agency has made major progress on the remaining capital plan.

Fund Level:

- Governmental Fund balances decreased to \$36.9 million in fiscal 2010, from \$38.6 million in fiscal 2009.
- Governmental Fund revenues increased \$0.1 million to \$11.3 million from fiscal 2009.
- Governmental Fund expenditures increased \$6.0 million to \$13.0 million from fiscal 2009.

Overview of the Basic Financial Statement

This report is in three parts:

- 1) Management's Discussion and Analysis (this part)
- 2) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements.
- 3) Budget/Actual Statements for Capital Project Funds.

The Basic Financial Statements

The Basic Financial Statements are comprised of the Agency-wide Financial Statement and the Fund Financial Statements. These two sets of financial statements provide two different views of the Agency's financial activities and financial position long-term and short term.

The Agency-wide Financial Statements provide a longer-term view of the Agency's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Agency as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the Agency's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the Agency's activities are grouped into Governmental Activities. The Fund Financial Statements report the Agency's operations in more detail than the Agency-wide statements and focus primarily on the short-term activities of the Agency's four funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the Agency and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. The Agency reports all four of its Funds as Major Funds; their purpose is explained below.

Together, all these statements are now called the Basic Financial Statements; formerly they were called general purpose financial statements.

The Agency-wide Financial Statements

All of the Agency's basic services are considered to be governmental activities, consisting of redevelopment services. These services are supported by general Agency revenues such as property tax increments, and by program revenues such as fees.

Agency-wide statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Agency as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the Agency's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the Agency for the year, and may change from year to year as a result of changes in the pattern of Agency's activities.

All the Agency's Funds are Governmental Funds. These Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they only measure current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Agency-wide financial statements.

Financial Activities of the Agency as a Whole

This analysis focuses on the net assets and changes in net assets of the Agency as a whole (Tables 1 and 2), presented in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

Governmental Activities

Table 1
Redevelopment Agency Net Assets at June 30, 2010
(in Millions)

	<u>Governmental Activities</u>	
	2010	2009
Cash and investments	18.410	21.672
Other assets	<u>21.266</u>	<u>18.769</u>
Total Assets	<u>39.676</u>	<u>40.441</u>
Long-term debt outstanding	28.281	28.878
Other liabilities	<u>1.316</u>	<u>1.452</u>
Total Liabilities	<u>29.597</u>	<u>30.330</u>
Net assets:		
Invested in capital assets, net of debt	1.938	0.816
Restricted	7.136	8.331
Unrestricted	<u>1.005</u>	<u>0.964</u>
Total net assets	<u>10.079</u>	<u>10.111</u>

Fiscal Year 2010 Governmental Activities

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets summarized below.

Table 2
Changes in Redevelopment Agency Net Assets
For the Year Ended June 30, 2010
(in Millions)

	<u>Governmental Activities</u>	
	2010	2009
Expenses		
Community development	0.117	0.218
Special projects	9.844	4.774
Debt service:		
Interest on long term debt	<u>1.328</u>	<u>1.273</u>
Total expenses	<u>11.289</u>	<u>6.265</u>
Revenues		
Program revenues:		
Development impact fees and permits	<u>0.395</u>	<u>0.128</u>
Total program revenues	<u>0.395</u>	<u>0.128</u>
General revenues:		
Taxes	10.405	10.142
Investment income	<u>0.457</u>	<u>0.843</u>
Total general revenues	<u>10.862</u>	<u>10.985</u>
Total revenues	<u>11.257</u>	<u>11.113</u>
Changes in net assets	<u>(0.032)</u>	<u>4.848</u>

Of the Agency's fiscal 2010 revenue, \$10.4 million came from incremental property taxes (increase \$0.3 million). Investment earnings accounted for \$0.5 million (\$0.4 million decrease) of Agency revenues. Redevelopment expenses totaled \$11.9 million, the majority of which consisted of debt service (\$1.9 million) and pass-through payments (\$9.8 million)

The expenses above include only current year expenses. They do not include capital outlays, which are now added to the Agency's capital assets. In fiscal 2010, the Agency acquired \$1.1 million of new capital assets.

Analyses of Major Funds

Redevelopment Agency Operating Fund

The Redevelopment Agency revenues consist primarily of property taxes, which totaled \$10.4 million or 96.1% of total fund revenue, for the year ended June 30, 2010.

Expenditures consisted primarily of special projects expenditures, which included property tax pass-through agreement payments in the amount of \$9.2 million.

Transfers out of the Redevelopment Agency operating fund consisted of transfers to the Redevelopment Agency Low/Moderate Housing Fund for the required 20% set-aside and to the Debt Service fund for debt payments.

At June 30, 2010 the Redevelopment Agency fund balance comprised \$10.6 million in unreserved, undesignated fund balance and \$124,118 in restricted fund balance. The restricted fund balance is due to a reserve for encumbrances.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Revenues for the Capital Project Fund consist of \$301,040 of other income. This results from transactions recording the Agency's acquisition of the building at 3rd and B streets.

Expenditures increased \$0.8 million to \$1.1 million due to more capital improvement project activity during fiscal year 2010.

Low and Moderate Housing Fund

This fund accounts for 20% tax increment set-aside funds reserved for low and moderate housing funds.

The Agency transferred in \$2.1 million from the Redevelopment Operating Fund representing the current year property tax increment revenue set-aside for low and moderate income housing activities.

Debt Service Fund

This Fund accounts for debt service payments of principal and interest on the Agency's Tax Allocation Bonds, which are more fully described in Note 6. The Bonds are secured by a pledge of tax increment revenues received by the Agency.

Capital Assets

GASB 34 requires the Agency to record all its capital assets including any infrastructure. The Agency acquired \$1.1 million in capital assets during fiscal year 2009-10.

Debt Administration

The Agency's Bonds are discussed in more detail in Note 6 to the financial statements. At June 30, 2010 the Agency's bonded indebtedness totaled \$28.3 million, which is secured by property tax revenues.

Economic Outlook and Major Initiatives

The economy of the Agency and its major initiatives for the coming year are discussed in detail in the Transmittal Letter to the City of Davis Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

Contacting the Agency's Financial Management

These financial statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Finance Department, 23 Russell Boulevard, Davis, CA 95616.

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REDEVELOPMENT AGENCY OF THE CITY OF DAVIS

**STATEMENT OF NET ASSETS
AND STATEMENT OF ACTIVITIES**

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the Agency's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Agency's financial position in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the modified accrual basis used in the Fund Financial Statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
ASSETS	
Cash and cash equivalents (Note 2)	\$18,364,259
Accrued interest	45,516
Accounts receivable	396,513
Loans receivable (Note 4)	13,416,042
Properties held for resale (Note 10)	3,915,830
Advances to the City of Davis (Note 3C)	1,600,000
Capital assets (Note 5):	
Non-depreciable	843,830
Depreciable	1,094,226
Total Assets	39,676,216
LIABILITIES	
Accounts payable	163,144
Interest payable	437,056
Deposits payable	12,769
Unearned revenue	13,149
Advances from the City of Davis (Note 3B)	689,891
Long-term debt (Note 6):	
Due in one year	635,000
Due in more than one year	27,646,441
Total Liabilities	29,597,450
NET ASSETS (Note 7):	
Invested in capital assets	1,938,056
Restricted for:	
Low and Moderate Income Housing	7,136,324
Total Restricted Net Assets	7,136,324
Unrestricted	1,004,386
Total Net Assets	\$10,078,766

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenue	Net (Expense) Revenue and Changes in Net Assets
		Development Impact Fees and Permits	Governmental Activities
Community development	\$117,628		(\$117,628)
Special projects	9,843,847	\$394,563	(9,449,284)
Debt service:			
Interest on long-term debt	1,327,950		(1,327,950)
Total Governmental Activities	11,289,425	394,563	(10,894,862)
Total	\$11,289,425	\$394,563	(10,894,862)
General revenues:			
Property taxes			10,405,232
Use of money and property			457,484
Total general revenues			10,862,716
Change in Net Assets			(32,146)
Beginning Net Assets			10,110,912
Ending Net Assets			\$10,078,766

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The **General Fund** is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund. The Agency's General Fund is included as a Special Revenue Fund in the Basic Financial Statements of the City of Davis.

The **Low Income Housing Fund** is used to account for the proceeds of specific revenue sources that are legally required to be set aside for low-and-moderate-income housing.

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs for the Redevelopment Agency.

The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010

	General	Low Income Housing	Debt Service	Capital Projects	Total Redevelopment Agency Funds
ASSETS					
Cash and cash equivalents (Note 2)	\$11,104,873	\$7,164,019		\$95,367	\$18,364,259
Accrued interest	30,828	14,688			45,516
Accounts receivable	396,513				396,513
Loans receivable (Note 4)	29,076	13,386,966			13,416,042
Due from other funds					
Properties held for resale (Note 10)		3,915,830			3,915,830
Advances to the City of Davis (Note 3C)		1,600,000			1,600,000
Total Assets	\$11,561,290	\$26,081,503		\$95,367	\$37,738,160
LIABILITIES					
Accounts payable	\$122,200	\$36,188		\$4,756	\$163,144
Deposits	12,769				12,769
Deferred revenue	13,149				13,149
Advances from the City of Davis (Note 3B)	689,891				689,891
Total Liabilities	838,009	36,188		4,756	878,953
FUND BALANCES					
Fund balance (Note 7):					
Reserved for:					
Encumbrances	124,118	33,825		278,383	436,326
Long-term loans receivable		13,359,336			13,359,336
Advances		1,600,000			1,600,000
Low and moderate income housing		7,136,324			7,136,324
Properties held for resale		3,915,830			3,915,830
Unreserved:					
Undesignated, reported in:					
General Fund	10,599,163				10,599,163
Capital Projects Funds				(187,772)	(187,772)
Total Fund Balances	10,723,281	26,045,315		90,611	36,859,207
Total Liabilities and Fund Balances	\$11,561,290	\$26,081,503		\$95,367	\$37,738,160

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
 Reconciliation of the
 GOVERNMENTAL FUNDS -- FUND BALANCES
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances reported on the governmental funds balance sheet \$36,859,207

Amounts reported for Governmental Activities in the Statement of Net Assets
 are different from those reported in the Governmental Funds
 above because of the following:

CAPITAL ASSETS

Capital assets net of accumulated depreciation used in Governmental Activities are not current
 assets or in Governmental Activities are not current assets or financial resources and
 therefore are not reported in the Governmental Funds. 1,938,056

LONG-TERM ASSETS AND LIABILITIES

The liabilities below are not due and payable
 in the current period and therefore are not
 reported in the Funds:

Interest payable (437,056)
 Long-term debt (28,281,441)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$10,078,766

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010

	General	Low Income Housing	Debt Service	Capital Projects	Total Redevelopment Agency Funds
REVENUES					
Taxes	\$10,405,232				\$10,405,232
Intergovernmental	48,354				48,354
Use of money and property	345,311	\$112,173			457,484
Development fees		19,841			19,841
Other	25,328			\$301,040	326,368
Total Revenues	10,824,225	132,014		301,040	11,257,279
EXPENDITURES					
Current:					
Community development	117,628				117,628
Special projects	9,211,755	643,669			9,855,424
Capital improvements				1,110,249	1,110,249
Debt service:					
Principal			\$610,000		610,000
Interest and fiscal charges			1,336,037		1,336,037
Total Expenditures	9,329,383	643,669	1,946,037	1,110,249	13,029,338
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,494,842	(511,655)	(1,946,037)	(809,209)	(1,772,059)
OTHER FINANCING SOURCES (USES)					
Proceeds from issuance of debt (Note 6)		13,289			13,289
Transfers in (Note 3A)		2,090,717	1,946,037	599,389	4,636,143
Transfers (out) (Note 3A)	(4,055,878)	(580,265)			(4,636,143)
Total Other Financing Sources (Uses)	(4,055,878)	1,523,741	1,946,037	599,389	13,289
NET CHANGE IN FUND BALANCES	(2,561,036)	1,012,086		(209,820)	(1,758,770)
BEGINNING FUND BALANCES	13,284,317	25,033,229		300,431	38,617,977
ENDING FUND BALANCES	\$10,723,281	\$26,045,315		\$90,611	\$36,859,207

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2010

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$1,758,770)

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay is therefore added back to fund balance 1,121,826
 Depreciation expense is deducted from the fund balance

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of bond principal is added back to fund balance 610,000
 Proceeds from the issuance of debt is deducted from fund balance (13,289)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest payable 8,087

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$32,146)

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$10,417,300	\$10,417,300	\$10,405,232	(\$12,068)
Intergovernmental	47,000	47,000	48,354	1,354
Use of money and property	629,416	629,416	345,311	(284,105)
Other	9,000	9,000	25,328	16,328
Total Revenues	<u>11,102,716</u>	<u>11,102,716</u>	<u>10,824,225</u>	<u>(278,491)</u>
EXPENDITURES:				
Current:				
Community development	128,614	128,614	117,628	10,986
Special projects	4,879,258	9,577,229	9,211,755	365,474
Total Expenditures	<u>5,007,872</u>	<u>9,705,843</u>	<u>9,329,383</u>	<u>376,460</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>6,094,844</u>	<u>1,396,873</u>	<u>1,494,842</u>	<u>97,969</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(3,636,703)	(3,636,703)	(4,055,878)	(419,175)
Total other financing sources (uses)	<u>(3,636,703)</u>	<u>(3,636,703)</u>	<u>(4,055,878)</u>	<u>(419,175)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$2,458,141</u>	<u>(\$2,239,830)</u>	<u>(2,561,036)</u>	<u>(\$321,206)</u>
Beginning fund balance			<u>13,284,317</u>	
Ending fund balance			<u>\$10,723,281</u>	

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
 LOW INCOME HOUSING FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property	\$475,187	\$475,187	\$112,173	(\$363,014)
Development fees	44,400	44,400	19,841	(24,559)
Other	71,372	1,180		(1,180)
Total Revenues	<u>590,959</u>	<u>520,767</u>	<u>132,014</u>	<u>(388,753)</u>
EXPENDITURES:				
Current:				
Special projects	464,369	719,459	643,669	75,790
Total Expenditures	<u>464,369</u>	<u>719,459</u>	<u>643,669</u>	<u>75,790</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>126,590</u>	<u>(198,692)</u>	<u>(511,655)</u>	<u>(312,963)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt			13,289	13,289
Transfers in	2,083,460	2,083,460	2,090,717	7,257
Transfers (out)	(587,790)	(587,790)	(580,265)	7,525
Total other financing sources (uses)	<u>1,495,670</u>	<u>1,495,670</u>	<u>1,523,741</u>	<u>28,071</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$1,622,260</u>	<u>\$1,296,978</u>	1,012,086	<u>(284,892)</u>
Beginning fund balance			<u>25,033,229</u>	
Ending fund balance			<u>\$26,045,315</u>	

See accompanying notes to financial statements

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REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. *Description of the Redevelopment Agency of the City of Davis and Redevelopment Plan*** - The Redevelopment Agency of the City of Davis was created under the provisions of the California Health and Safety Code for the purpose of rehabilitating property considered to be in a blighted condition. Assessed values are expected to increase as a result of these redevelopment activities and any associated increased property tax revenues (property tax increments) are received by the Agency. Agency operations are also financed by proceeds from City advances, proceeds from long-term debt and interest income.

The Agency is a separate legal entity governed by the City Council sitting in a separate capacity as the Redevelopment Agency Board. City staff performs all administrative, accounting, management and budgeting functions. Because of the control the City exercises over Agency operations, the Agency is considered a component unit of the City and is included in the City's basic financial statements.

- B. *Basis of Presentation***

The Agency's Component Unit Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

Agency-wide Statements: The Statement of Net Assets and the Statement of Activities display the financial activities of the overall Agency. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

- C. *Major Funds***

The Agency's major funds are required to be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total.

The Agency reported all its governmental funds in the accompanying financial statements as major funds.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The **General Fund** is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund. The Agency's General Fund is included as a Special Revenue Fund in the Basic Financial Statements of the City of Davis.

The **Low Income Housing Fund** is a Special Revenue Fund used to account for the proceeds of specific revenue sources that are legally required to be set aside for low and moderate income housing.

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs for the Redevelopment Agency.

The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

D. Basis of Accounting

The Agency-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

The Agency may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

E. Budgets and Budgetary Accounting

The Agency operates under the general laws of the State of California and follows the budgetary process of the City. Annually, the Board adopts a budget effective July 1 for the ensuing fiscal year. From the effective date of the budget, which is adopted and controlled at the Agency level, the amounts stated as proposed expenditures become appropriations. The Board may amend the budget by resolution during the fiscal year. The City Manager is authorized to transfer budget appropriations between accounts within the same fund. All appropriations lapse at year end.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrance accounting is employed as an extension of the budgetary process. Under encumbrance accounting, purchase orders, contracts, and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are recorded as reservations of fund balance because they do not constitute expenditures or liabilities. Unencumbered and unexpended appropriations lapse at year-end. Outstanding encumbrances at year end are honored.

F. *Property Tax Levy, Collection and Maximum Rates*

Yolo County assesses properties and bills, collects, and distributes actual property taxes collected to the City three times per year. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year. Property taxes levied are recorded as revenue and receivables in the fiscal year of levy.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. These taxes are secured by liens on the property being taxed. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term "unsecured" refers to taxes on personal property other than real estate, land and buildings.

NOTE 2 - CASH AND CASH EQUIVALENTS

A. *Classification*

The Agency's cash and cash equivalents of \$18,364,259 was included in a City-wide cash and investments pool as of June 30, 2010. The details of which are presented in the City's basic financial statements. The City's Investment Policy and the California Government Code permit investments in the following: Securities issued by the U.S. Government or an agency of the U.S. Government, mortgage-backed securities, commercial paper, banker's acceptances, medium term notes issued by U.S. corporations, mutual funds invested in U.S. Government securities, certificates of deposit, municipal bonds issued by the City or any of its component units, the State Treasurer's investment pool (Local Agency Investment Fund) and the California Asset Management Program (CAMP). As of June 30, 2010, the City's portfolio was composed primarily of investments in securities issued by the U.S. Government and its agencies and the Local Agency Investment Fund.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 3 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Board approval, resources may be transferred from one Agency fund to another. Transfers between funds during the fiscal year ended June 30, 2010, were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
Low Income Housing Fund	General Fund	\$2,090,717 (A)
Debt Service Fund	General Fund	1,365,772 (B)
Debt Service Fund	Low Income Housing Fund	580,265 (B)
Capital Projects Fund	General Fund	599,389 (C)
Total Interfund Transfers		\$4,636,143

(A) To fund the twenty percent set-aside in the Redevelopment Agency Low Income Housing Fund

(B) To fund debt service

(C) To fund capital projects

B. Long-Term Advances from the City of Davis

In fiscal year 2003, the Agency's General Fund received an advance from the City in the amount of \$1,928,184. The Agency began making annual interest and principal payments on July 1, 2004, with the final payment expected in fiscal year 2014. The interest rate is subject to an annual reset at average-cost-of-funds rate (twelve-month average investments earnings rate). Principal and interest payments are reviewed annually during the budgeting process, with the intention of accelerating repayment when possible. In fiscal year 2010, the Agency repaid \$172,472 of the advance, leaving an outstanding balance of \$689,891 as of June 30, 2010.

C. Long-Term Advance to the City of Davis

The Redevelopment Agency advanced \$1,600,000 to the City's Housing In-Lieu Fund in April 2010 to finance a bank loan payoff of the Pacifico Project. Future revenue generated from the Project will be used to repay the advance.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 4 - LOANS RECEIVABLE

Loans receivable, including accrued interest and related deferred revenue, comprised balances from the following programs, all of which are discussed below:

Davis Mutual Housing Association (Owendale/ Twin Pines)	\$1,753,602
Windmere II	545,640
Walnut Terrace	1,830,421
Tremont Green	1,244,852
Moore Village	2,768,491
Eleanor Roosevelt	2,123,219
Pence Gallery	24,608
Oakshade East	900,000
Other Commercial Rehabilitation, Housing Rehabilitation, and Affordable Housing Community Housing Opportunities Corporations	1,698,768 526,441
Total	\$13,416,042

A. *Davis Mutual Housing Association*

The Redevelopment Agency and the City of Davis entered into two agreements with the Davis Mutual Housing Association for affordable housing. Under the terms of the first agreement, the Agency loaned \$1,608,792 to assist in the development of affordable housing located at 3023 Albany Avenue. This agreement is guaranteed by a promissory note bearing no interest. Total monthly payment of \$2,682 began on January 10, 2006. Final payment is due on January 10, 2056.

Under the terms of the second agreement, the Agency loaned \$300,000 to the Association to develop an affordable multi-family housing project consisting of thirty-six units. This note bears 3% interest and payments are to be made from residual cash flows. The remaining outstanding principal will be due on May 21, 2033.

Both agreements are secured by deeds of trust. As of June 30, 2010, the Association has drawn down \$1,753,602 of the Agency's fund.

B. *Windmere II*

The Redevelopment Agency entered into two agreements with the developers of Windmere II to assist in the development of affordable housing located at 3100 Fifth Street. Under the terms of the first agreement, the Agency loaned \$445,000 to the developers. The note bears 3% simple interest. Annual interest only payments began July 1, 2000. Commencing July 1, 2006, principal and interest payments are due annually with final payment expected in 2035. Under the terms of the second agreement, the Agency loaned \$148,000 to the developers. The note bears 3% simple interest and payments are to be made from residual cash flows. Annual interest only payments begin July 1, 2000. Commencing July 1, 2006, annual principal and interest payments are due with final payment expected in 2035. Both agreements are secured by deed of trust.

The balance of the loans receivable arising from these notes at June 30, 2010, was \$545,640.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 4 - LOANS RECEIVABLE (Continued)

C. *Walnut Terrace*

The Redevelopment Agency of the City of Davis entered into an agreement with Walnut Terrace Limited Partnership for affordable housing. Under the terms of the agreement, the Agency loaned \$2,108,792 interest free to assist in the development of affordable senior multi-family housing project consisting of thirty units located at 3101 Fifth Street. Subsequently, Walnut Terrace Limited secured other financing and repaid \$278,372 to the Agency. If the project generates any residual cash flow, 100% of the residual cash flow shall be paid to the Agency in the form of an annual payment, commencing November 1, 2005. All unpaid principal is due on November 1, 2060. The agreement is secured by deed of trust.

The balance of the loan receivable arising from this note at June 30, 2010, was \$1,830,421.

D. *Tremont Green*

The Redevelopment Agency entered into an agreement with Yolo Mutual Housing Association for affordable housing. Under the terms of the agreement, the Agency loaned \$1,244,852 for construction of thirty-six unit residential rental property located at El Macero Estates. The note bears 3.0% interest. If the project generates any residual cash flow, principal and interest payments are due annually with final payment expected in 2058. The agreement is secured by deed of trust.

The balance of the loan receivable arising from this note at June 30, 2010, was \$1,244,852.

E. *Moore Village*

The Redevelopment Agency entered into an agreement with Yolo Mutual Housing Association for affordable housing. Under the terms of the agreement, the Agency loaned \$2,074,000 for construction of fifty-nine unit apartment complex. The note bears 3.0% simple interest. If the project generates any residual cash flow, principal and interest payments are due annually with final payment expected in 2059. The agreement is secured by deed of trust.

The balance of the loan receivable arising from this note at June 30, 2010, was \$2,768,491.

F. *Eleanor Roosevelt*

The Redevelopment Agency entered into an agreement with Davis Senior Housing Cooperative for affordable housing. Under the terms of the agreement, the Agency approved a loan in the amount not to exceed \$2,250,000 for construction of a sixty-unit senior residential rental property. The note bears no interest for the first fifteen years, 6% simple interest for the next fifteen years and 3% simple interest for the remaining twenty five years. The payments are to be made from residual cash flow. Commencing December 2020, annual principal and interest payments are due with final payment expected in 2060. The loan is secured by deed of trust.

The balance of the loan receivable arising from this note at June 30, 2010, was \$2,123,219.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS

Notes to Component Unit Financial Statements

NOTE 4 - LOANS RECEIVABLE (Continued)

G. *Pence Gallery*

The Redevelopment Agency of the City of Davis entered into a loan agreement with Pence Gallery Association to assist in repayment of construction loans and development impact fees. Under the terms of agreement the Agency loaned \$123,040. The note bears no annual interest. The loan is due and payable in March 2011. However, the Agency will forgive 20% of the principal loan amount on each loan agreement anniversary date if the Association continues to operate and maintain the Gallery for artistic exhibits and events. The balance of the loan receivable arising from this note at June 30, 2010, was \$24,608.

H. *Oakshade East*

The Redevelopment Agency of the City of Davis entered into an agreement with Yolo Mutual Housing Association and Sacramento Mutual Housing Association to develop 60 to 70 affordable two, three, and four bedroom apartments. Under terms of the agreement the Agency loaned the associations \$900,000. The note bears simple interest at 3%. If the project generates any residual cash flow, principal and interest payments are due annually with the final payment due 2065.

I. *Other Commercial Rehabilitation, Housing Rehabilitation and Affordable Housing*

The Agency engages in programs designed to encourage construction or improvement in low-to-moderate-income housing or other projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. The balance of the loans receivable arising from these programs at June 30, 2010, was \$1,698,768.

J. *Community Housing Opportunities Corporation*

The Redevelopment Agency of the City of Davis entered into an agreement with Community Housing Opportunities Corporation, a California nonprofit public benefit Corporation to construct a mixed-use development that will include a minimum of twenty-eight for-sale residential units and certain other improvements. Twenty-one out of the twenty-eight units will be sold to families with income that is 80% or less of the area median income. Under the terms of the agreement, the Agency will loan the Corporation \$1,908,000. This note bears simple interest at 3% and will be due on June 8, 2012. The balance of the loans receivable arising from this note at June 30, 2010, was \$526,441.

K. *Conditional Grants*

The Agency has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the Agency's housing stock and/or its supply of low-and-moderate income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The Agency accounts for these loans as conditional grants in the Agency-wide financial statements, and provides a reserve against their eventual forgiveness using the straight-line method over the life of the respective loan.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 5 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

A. Capital Asset Additions and Retirements

Capital assets activity for the year ended June 30, 2010, is as follows:

	Balance at June 30, 2009	Additions and Transfers	Balance at June 30, 2010
<i>Governmental Activities</i>			
Capital assets not being depreciated:			
Land	\$816,230	\$27,600	\$843,830
Total capital assets not being depreciated	<u>816,230</u>	<u>27,600</u>	<u>843,830</u>
Capital assets being depreciated:			
Buildings	<u> </u>	1,989,502	1,989,502
Total capital assets being depreciated	<u> </u>	<u>1,989,502</u>	<u>1,989,502</u>
Less accumulated depreciation for:			
Buildings	<u> </u>	895,276	895,276
Total accumulated depreciation	<u> </u>	<u>895,276</u>	<u>895,276</u>
Net capital assets being depreciated	<u> </u>	<u>1,094,226</u>	<u>1,094,226</u>
Total capital assets, net	<u>\$816,230</u>	<u>\$1,121,826</u>	<u>\$1,938,056</u>

B. Capital Asset Contributions

Some capital assets may be acquired using Federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 6 - LONG-TERM DEBT

A. *A summary of long-term debt and transactions for the year ended June 30, 2010 follows:*

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
Redevelopment Agency					
2003 Tax Allocation Refunding Bonds 2.00%-5.00%, due 09/01/34	\$8,630,000		\$155,000	\$8,475,000	\$160,000
2007 Tax Allocation Refunding Bonds 4.00%-4.25%, due 9/1/2030	11,520,000		335,000	11,185,000	350,000
2007 Taxable Housing Tax Allocation Bonds 5.50%, due 9/1/2037	8,215,000		120,000	8,095,000	125,000
California Housing Finance Agency Note Payable 3%, due 08/08/2012	513,152	\$13,289		526,441	
	<u>\$28,878,152</u>	<u>\$13,289</u>	<u>\$610,000</u>	<u>\$28,281,441</u>	<u>\$635,000</u>

At June 30, 2010, debt service requirements for the Agency's long-term debt are as follows:

For the Year Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$635,000	\$1,298,331
2012	1,186,441	1,271,938
2013	690,000	1,243,850
2014	710,000	1,214,255
2015	750,000	1,183,030
2016-2020	4,245,000	5,387,580
2021-2025	5,290,000	4,328,643
2026-2030	6,660,000	2,943,546
2031-2035	6,525,000	1,200,127
2036-2038	1,590,000	138,131
Total	<u>\$28,281,441</u>	<u>\$20,209,431</u>

B. *Description of the Agency's Long-Term Debt Issues*

2003 Tax Allocation Refunding Bonds and 2007 Tax Allocation Refunding Bonds – On October 30, 2003, the Redevelopment Agency of the City of Davis issued the 2003 Tax Allocation Refunding Bonds in the amount of \$9,625,000. The proceeds from the sale of the Bonds were used to refund the Agency's outstanding Davis Redevelopment Project 1994 Tax Allocation Bonds. Agency's tax increment revenue; less amounts required to be set aside in the Redevelopment Agency Low Income Housing Fund and certain tax increment pass through payments, is pledged for the repayment of these bonds. Principal payments are payable annually on September 1 and interest is payable semi-annually each March 1 and September 1 through 2034.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS

Notes to Component Unit Financial Statements

NOTE 6 - LONG-TERM DEBT (Continued)

On February 20, 2007, the Redevelopment Agency of the City of Davis issued the 2007 Tax Allocation Refunding Bonds in the amount of \$12,140,000. The proceeds from the sale of the Bonds were used to refund the Agency's outstanding Davis Redevelopment Project 2000 Tax Allocation Refunding Bonds. The Bonds' are secured on a parity with the 2003 Tax Allocation Refunding Bonds by a pledge of and first lien on Agency tax increment revenues, less amounts required to be set aside in the Redevelopment Agency Low Income Housing Fund and certain tax increment pass through payment, from the Agency's Redevelopment Project. Interest is payable semi-annually each March 1 and September 1 and principal payments are payable annually on September 1 through 2030.

As discussed above, the Agency has pledged all future tax increment revenues, less amounts required to be set aside in the Redevelopment Agency Low Income Housing Fund and certain tax increment pass through payments, for the repayment of both the 2003 and 2007 Tax Allocation Bonds (non-housing revenues). The pledge of all future non-housing revenues ends upon repayment of the \$31,870,739 remaining debt service on the Bonds above, which is scheduled to occur in 2034. Projected non-housing tax increment revenues are expected to provide coverage over debt service of 568% over the life of the two Bonds. For fiscal year 2010, non-housing revenues amounted to \$8,314,515 which represented coverage of 613% over the \$1,355,509 of non-housing debt service.

2007 Taxable Housing Tax Allocation Bonds – On February 20, 2007, the Redevelopment Agency of the City of Davis issued the 2007 Taxable Housing Tax Allocation Bonds in the amount of \$8,675,000. The proceeds from the sale of the Bonds were used to aid the financing of redevelopment activities consisting of the increasing, improving and preserving of the supply of low and moderate income housing within the City. Agency housing tax revenue is pledged for the repayment of these bonds. Interest is payable semi-annually each March 1 and September 1 and principal payments are payable annually on September 1 through 2037.

The pledge of future tax increment revenues ends upon repayment of the \$16,093,692 in remaining debt service on this bond issue which is scheduled to occur in 2037. As disclosed in the originating offering documents, pledged future tax increment revenues are expected to provide coverage over debt service of 338% over the life of the long-term debt. For fiscal year 2010, tax increment revenues amounted to \$2,090,717 which represented coverage of 362% over the \$577,790 in debt service.

CalHFA Note Payable – On August 8, 2007, the Redevelopment Agency of City of Davis entered into \$1,908,000 Residential Development Loan Program with California Housing Finance Agency (CalHFA) to assist with the predevelopment and construction development of a minimum of twenty-eight-unit housing project. The note bears 3% simple interest rate and principal payments and interest payments are deferred and due on August 8, 2012. As of June 30, 2010, the note payable balance is \$526,441.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Notes to Component Unit Financial Statements

NOTE 7 – NET ASSETS AND FUND BALANCE

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Agency-wide level, and are described below:

Invested in Capital Assets, describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balance

Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of a fund balance, which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved.

NOTE 8 - CONTINGENT LIABILITY

The Agency participates in several federal and State grant programs. These programs have been audited by the Agency's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits. However, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The Agency expects such amounts, if any, to be immaterial.

The State of California believes the Agency is responsible for clean-up of certain real property located in downtown Davis which has been identified as environmentally contaminated. The Agency does not agree. The Agency could be obligated by State and/or federal agencies to provide resources to remediate all or a portion of the contamination. Management has not been able to determine the extent of the contamination or the costs to the Agency for cleanup, if any; accordingly, no provision for any loss which may result has been recorded in the accompanying Component Unit Basic Financial Statements.

The Agency is subject to litigation arising in the normal course of business. In the opinion of the Agency Attorney there is no other pending litigation, which is likely to have a material adverse effect on the financial position of the Agency.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS

Notes to Component Unit Financial Statements

**NOTE 9 – TAX INCREMENTAL SHIFT TO SUPPLEMENTAL EDUCATIONAL REVENUE
AUGMENTATION FUND (SERAF)**

The State of California adopted AB26 4X in July 2009 which directs that a portion of the incremental property taxes received by redevelopment agencies, based on the property taxes received in fiscal year 2006-07, be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance determines each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. The Agency made its first SERAF payment from the Redevelopment Agency General Fund of \$3,202,971 in fiscal year 2009-10.

Based on the calculations in AB26 4X, the Agency's SERAF payment is estimated to be \$658,807 in fiscal year 2010-11. The Agency can use any legally available funds to make the SERAF payments. The obligation to make the SERAF payment is subordinate to obligations to repay bonds. However, if the Agency fails to make the full SERAF payment, the Agency may not encumber or expend funds other than to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on Agency administration for the preceding fiscal year until the SERAF is paid in full.

NOTE 10 – SUBSEQUENT EVENT

In 2008, the City and Redevelopment Agency of the City of Davis entered into a consolidated loan agreement with Davis Area Cooperative Housing Association, Inc (DACHA) in the total amount of \$4,153,429.

\$1,173,177 of the loan proceeds were used to refinance an existing loan that the Association had with the Redevelopment Agency and the City in amounts of \$1,073,177 and \$100,000 respectively. Under the original loan agreement, the Agency and the City loaned a combined original amount of \$1,240,000 for the acquisition of affordable housing units located at 5503, 5509, 5515, 5521, 5527, 5533 and 5539 Tufts Street in the City of Davis.

In addition, \$2,980,252 of the loan proceeds was used to provide affordable housing opportunities to a total of twenty single family housing units.

In October 2009, a judgment was levied against DACHA's bank accounts for payment, leaving it without any funds to make payments on the Agency's loan. In November 2009 the Agency issued a Declaration of Default and Demand for Sale based on the loan's delinquency. The Agency also began collecting rents directly on DACHA's behalf, as a means of protecting the revenue source that was at risk of being levied by a junior lienholder.

The Agency gave authorization on March 24, 2010 allowing the publication of a 20-day notice to sell. The sale of the property was then scheduled for April 2010, but got delayed with an automatic stay due to an involuntary bankruptcy that was filed against DACHA by another creditor. Eventually the bankruptcy petition was deemed invalid due to DACHA's status as a non-profit organization and the twenty DACHA units acting as collateral for the Agency's loan went to foreclosure sale on July 1, 2010. At the foreclosure sale, the Agency took ownership of the twenty units formerly held by DACHA in exchange for the forgiveness of the loan discussed above.

While the foreclosure sale did not occur prior to the June 30, 2010, fiscal year end, generally accepted accounting principles require the reclassification of assets from loans receivable to properties held for resale as of June 30, 2010, due to the subsequent forgiveness of the loan and the properties acquisition.

**MAJOR GOVERNMENTAL FUNDS, OTHER THAN
GENERAL AND SPECIAL REVENUE FUNDS**

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs for the Redevelopment Agency.

The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Use of money and property	\$31,873	_____	(\$31,873)
Total Revenues	31,873	_____	(31,873)
EXPENDITURES			
Debt Service:			
Principal	610,000	\$610,000	
Interest and fiscal charges	1,358,587	1,336,037	22,550
Total Expenditures	1,968,587	1,946,037	22,550
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,936,714)	(1,946,037)	(9,323)
OTHER FINANCING SOURCES (USES)			
Transfers in	2,141,033	1,946,037	(194,996)
Total Other Financing Sources (Uses)	2,141,033	1,946,037	(194,996)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$204,319		(\$204,319)
BEGINNING FUND BALANCE		_____	
ENDING FUND BALANCE		_____	

REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
 CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Use of money and property	\$27,014		(\$27,014)
Other		\$301,040	301,040
Total Revenues	27,014	301,040	274,026
EXPENDITURES			
Capital improvements	1,505,863	1,110,249	395,614
Total Expenditures	1,505,863	1,110,249	395,614
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,478,849)	(809,209)	669,640
OTHER FINANCING SOURCES (USES)			
Transfers in		599,389	599,389
Total Other Financing Sources (Uses)		599,389	599,389
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$1,478,849)	(209,820)	\$1,269,029
BEGINNING FUND BALANCE		300,431	
ENDING FUND BALANCE		\$90,611	

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

Members of the Redevelopment Agency
of the City of Davis
Davis, California

We have audited the financial statements of City of Davis as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in a separate Memorandum on Internal Control dated December 17, 2010, which is an integral part of our audits and should be read in conjunction with this report, that we consider to be significant deficiencies in internal control over financial reporting as finding 2010-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings.

We did not audit the City's responses to the findings included in the Schedule of Findings and, accordingly, we express no opinion on them.

As part of our audit, we prepared and issued our separate Memorandum on Internal Control dated December 17, 2010.

This report is intended solely for the information and use of the board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 17, 2010.

CITY OF DAVIS
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS

Finding 10-01 – Excess Surplus Calculation

Criteria:

The California Health and Safety Code Section 33334.12 require the Redevelopment Agency to calculate excess surplus held. If excess surplus exists, management should prepare an appropriate course of action to eliminate the excess in the following fiscal year.

Condition:

Per review of the Agency’s Excess Surplus Calculation on Schedule C of the Housing Activities Report for fiscal year 2007-08, the Agency included the entire beginning balance of its Low Housing Fund as “Prior Year Ending Unencumbered Balance” in the calculation. As a result, the Agency reported an excess surplus of \$15.5 million. Upon discovery, we advised the Agency to correct the error. It was the Agency’s plan then to correct the error in the next calculation. However, per review of the Excess Surplus Calculation on Schedule C of the Housing Activities Report for fiscal year 2008-09, the Agency reported an excess surplus of \$16.1 million. The Agency did not recalculate their excess surplus to correct the error made in fiscal year 2007-08 Housing Activity Report and has not disclosed the course of action to eliminate the excess.

Effect:

The excess surplus amount reported on the Housing Activity Reports was misstated. Also, the Agency is not in compliance with the California Health and Safety Code Section 33334.12.

Cause:

The Agency mistakenly classified bond proceeds from refunding bonds as revenue, thus causing an excess surplus in the calculation.

Recommendation:

We recommend that the Agency revise its calculation and contact the State’s Controller’s Office for re-submission of the Housing Activities Reports. If an excess surplus exists after the calculations are corrected, the Agency should implement a plan to eliminate the surplus as soon as possible.

Management Response:

The Agency will correct the Housing Activities Report to eliminate the excess surplus that resulted from including proceeds from debt.

Contact Person:

Pam Day, Accountant

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding 09-01 – Annual Report Submission

Criteria:

The California Health and Safety Code Section 33080.1 requires that the Redevelopment Agency present the following reports to its legislative body within six months of the end of the Agency's fiscal year:

- Housing Activities Report
- Blight Progress Report
- Loan Report
- Property Report

Condition:

As of May 4, 2009, the above reports for fiscal year 2007-08 had not yet been submitted to the Agency Board.

Effect:

The Agency is not in compliance with California Health and Safety Code Section 33080.1.

Cause:

We were informed that the Agency was not aware of this requirement.

Recommendation:

We recommend the Agency submit these reports to the Agency Board as soon as possible. In the future years, these reports should be submitted to the Agency Board within six months after the end of the fiscal year.

Current Year Status:

For the fiscal year ending 2008-09, the Redevelopment Agency submitted the financial reports, which contains the Housing Activity, Blight Progress, Loan, and Property Reports to the Agency Board.

APPENDIX C
FORM OF BOND COUNSEL OPINIONS

March 4, 2011

Redevelopment Agency of the City of Davis
23 Russell Boulevard
Davis, California 95616

Re: \$13,310,000 Redevelopment Agency of the City of Davis (Davis
 Redevelopment Project) 2011 Subordinate Tax Allocation Bonds, Series A

Members of the Agency:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of Davis (the "Agency") of \$13,310,000 Redevelopment Agency of the City of Davis (Davis Redevelopment Project) 2011 Subordinate Tax Allocation Bonds, Series A, dated as of the date hereof (the "Bonds"), pursuant to the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the California Health and Safety Code (the "Law") and an Indenture of Trust, dated as of March 1, 2011, between the Agency and U.S. Bank National Association, as trustee (the "Indenture"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public body, corporate and politic, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly approved by the Agency and constitutes a valid and binding obligation of the Agency enforceable in accordance with its terms.
3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds on a parity with other bonds (if any) issued or to be issued under the Indenture, subject to no other prior lien granted under the Law.

4. The Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency, payable solely from the sources provided therefor in the Indenture.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the Agency comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

March 4, 2011

Redevelopment Agency of the City of Davis
23 Russell Boulevard
Davis, California 95616

Re: \$4,690,000 Redevelopment Agency of the City of Davis (Davis
Redevelopment Project) 2011 Subordinate Taxable Tax Allocation Bonds,
Series B

Members of the Agency:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of Davis (the "Agency") of \$4,690,000 Redevelopment Agency of the City of Davis (Davis Redevelopment Project) 2011 Subordinate Taxable Tax Allocation Bonds, Series B, dated as of the date hereof (the "Bonds"), pursuant to the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the California Health and Safety Code (the "Law"), and an Indenture of Trust, as amended and supplemented by a First Supplement To Indenture of Trust, each dated as of March 1, 2011, and each between the Agency and U.S. Bank National Association, as trustee (as amended and supplemented the "Indenture"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public body, corporate and politic, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly approved by the Agency and constitutes a valid and binding obligation of the Agency enforceable in accordance with its terms.
3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds on a parity with other bonds (if any) issued or to be issued under the Indenture, subject to no prior lien granted under the Law.

4. The Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency, payable solely from the sources provided therefor in the Indenture.

5. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of the provisions of the Indenture of Trust as amended and supplemented by the First Supplement to Indenture of Trust, each dated as of March 1, 2011, and each by the between the Agency and the Trustee (as amended and supplemented, the "Indenture"). Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary; and terms used in this Official Statement and not previously defined or defined below shall have the meanings given them in the Indenture.

"Additional Allowance" means, as the date of calculation, (i) the amount of Subordinate Tax Revenues which, as shown in a Report, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in the Project Area due to either (a) construction which has been completed but not yet reflected on the tax rolls, or (b) transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls. For purposes of this definition, the term "increases in the assessed valuation" means the amount by which the assessed valuation of taxable property in the Project Area is estimated to increase above assessed valuation of taxable property in the Project Area (as evidenced on the written records of the Yolo County Auditor-Controller) as of the date in which such calculation is made.

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

"Bond" or "Bonds" means the Redevelopment Agency of the City of Davis, Davis Redevelopment Project, 2011 Subordinate Tax Allocation Bonds, Series A, and, when the context requires, includes the Redevelopment Agency of the City of Davis, Davis Redevelopment Project, 2011 Taxable Tax Allocation Bonds, Series B and any additional Parity Debt.

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

"Bond Year" means any twelve-month period beginning on December 2 in any year and extending to the next succeeding December 1, both dates inclusive; except that the first Bond Year begins on the Closing Date and ends on December 1, 2011.

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

“City” means the City of Davis, California, a municipal corporation and general law city duly organized and existing under the laws of the State.

“Closing Date” means the date on which the Bonds are delivered by the Agency to the Original Purchaser thereof.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Excess Subordinate Tax Revenues” means total Subordinate Tax Revenues less annual debt service on the Bonds.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Agency and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Agency in any written directions of the Agency.

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

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

“Gross Tax Increment” means all taxes pledged and annually allocated within the Plan Limit, following the Closing Date, and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations.

“Gross Tax Increment Deductions” means the total of (i) amounts required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.3 of the Law, (ii) amounts payable under Senior Pass-through Agreements, and (iii) amounts payable by the Agency pursuant to Section 33607.5 and 33607.7 of the Law with a parity lien senior to the lien of the Bonds.

“Gross Tax Revenues” means all taxes pledged and annually allocated within the Plan Limit, following the Closing Date, and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency

specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and including that portion of such taxes otherwise required by Section 33334.3 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 Bonds, if any, and that portion of any Parity Debt and Senior Parity Debt (including applicable reserves and financing costs) issued to finance amounts deposited in the Low and Moderate Income Housing Fund for use pursuant to Section 33334.2 of the Law to increase or improve the supply of low and moderate income housing within or of benefit to the Project Area; but excluding all other amounts of such taxes (if any) (i) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.3 of the Law for increasing and improving the supply of low and moderate income housing, (ii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Code and (iii) amounts payable by the Agency pursuant to the Senior Tax Sharing Agreements and Section 33607.5 and 33607.7 of the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds, Parity Debt, Senior Bonds and Senior Parity Debt.

“Independent Accountant” means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by or acceptable to the Agency, and who, or each of whom: (a) is in fact independent and not under domination of the Agency; (b) does not have any substantial interest, direct or indirect, with the Agency; and (c) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

“Independent Redevelopment Consultant” means any consultant or firm of such consultants appointed by or acceptable to the Agency and who, or each of whom: (a) is judged by the Agency to have experience in matters relating to the collection of Tax Revenues or otherwise with respect to the financing of redevelopment projects; (b) is in fact independent and not under domination of the Agency; (c) does not have any substantial interest, direct or indirect, with the Agency, and (d) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

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

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

“Maximum Annual Debt Service” means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year as certified in writing by the Agency to the Trustee. For purposes of such calculation, there shall be excluded a pro rata portion of each installment of principal of any Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of such Parity Debt are deposited in an escrow fund from which amounts may not be released to the Agency unless the Subordinate Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County) at least equal one hundred thirty percent (130%) of the amount of Maximum Annual Debt Service.

“Moody's” means Moody's Investors Service Inc., of New York, New York, and its successors.

“Net Tax Increment” means the Gross Tax Increment less the Gross Tax Increment Deductions.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (c) Bonds in lieu of or in substitution for

which other Bonds shall have been authorized, executed, issued and delivered by the Agency pursuant to the Indenture.

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

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

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities;

(b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

(c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal); (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations (but only the interest component of stripped obligations) of the Resolution Funding Corporation; and (vi) consolidated system wide bonds and notes of the Farm Credit System;

(d) money market funds (including funds of the Trustee or its affiliates) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm", or "AAm", including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(e) certificates of deposit secured at all times by collateral described in (a) or (b) above, which have a maturity of one year or less, which are issued by commercial banks, including affiliates of the Trustee, savings and loan associations or mutual savings banks, and such collateral must be held by a third party, and Bond owners must have a perfected first security interest in such collateral;

(f) certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation;

(g) investment agreements, including guaranteed investment contracts, which, (i) so long as any insured Bond is Outstanding, at the time of execution are acceptable to the Insurer, and, thereafter (ii) are general obligations of an entity whose long term debt obligations, or claims paying ability, respectively, is rated in one of the two highest rating categories by Moody's or S&P;

(h) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(i) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(j) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(k) repurchase agreements which provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date, which satisfy the following criteria:

(i) repurchase agreements must be between the Trustee and (A) a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the Securities Investors Protection Corporation and which are rated "A" or better by Moody's and S&P, or (B) a bank rated "A" or better by Moody's and S&P;

(ii) the written repurchase agreement contract must include the following: (A) securities acceptable for transfer, which may be direct U.S. government obligations, or federal agency obligations backed by the full faith and credit of the U.S. government; (B) the term of the repurchase agreement may be up to 30 days; (C) the collateral must be delivered to the Trustee or a third party acting as agent for the Trustee simultaneous with payment (perfection by possession of certificated securities); (D) the Trustee must have a perfected first priority security interest in the collateral; (E) the collateral must be free and clear of third-party liens and, in the case of a broker which falls under the jurisdiction of the Securities Investors Protection Corporation, are not subject to a repurchase agreement or a reverse repurchase agreement; (F) failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate the collateral; (G) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest (unless the securities used as collateral are obligations of the Federal National Mortgage Association or before the Federal Home Loan Mortgage Corporation, in which case the collateral must be equal to 105% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest). If the value of securities held as collateral falls below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred; and

(iii) a legal opinion must be delivered to the Trustee to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds;

(l) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P; provided, however, pre-refunded municipal bonds rated by S&P only (i.e., no Moody's rating) are acceptable if such pre-refunded municipal bonds were pre-refunded with cash, direct U.S. or U.S. guaranteed obligations or AAA rated pre-refunded municipal bonds; and

(m) any investment meeting the requirement for “hedge bond” status, as described in the Indenture.

(n) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to deposit to and withdraw from such investment in its name.

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

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

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

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

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

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

“Reserve Requirement” means, as of the date of any calculation, the lesser of (a) Maximum Annual Debt Service on such Bonds (including any Parity Debt), or (b) 125% of average Annual Debt Service on such Bonds (including any Parity Debt), or (c) 10% of the Outstanding principal amount of such Bonds (including any Parity Debt).

“S&P” means Standard & Poor’s Ratings Services and its successors.

“Senior Bonds” means the 2003 Bonds, 2007 Bonds and any Senior Parity Debt issued pursuant to the Senior Bonds Indenture.

“Senior Bonds Indenture” means the Indenture of Trust, dated as of November 1, 2000, by and between the Agency and the Trustee, as amended and supplemented by the First Supplement to Indenture of Trust, dated as of September 1, 2003, Second Supplement to Indenture of Trust, dated as of March 1, 2007 and any subsequent supplements or amendments entered into pursuant to the terms thereof.

“Senior Parity Debt” means obligations defined as “Parity Debt” under the Senior Bonds Indenture.

“Senior Pass-Through Agreements” means, collectively, those certain agreements entitled “Agreement between the Redevelopment Agency of the City of Davis and the Davis Cemetery District Pursuant to Health and Safety Code Section 33041”, made and entered into September 15, 1988, “Agreement between the Redevelopment Agency of the City of Davis and the Yolo County Flood Control and Water Conservation District Pursuant to Health and Safety Code Section 33401”, made and entered into September 6, 1988, and “Agreement between the Redevelopment Agency of the City of Davis, the City of Davis and County of Yolo Pursuant to Health and Safety Code Section 33401”, made and entered into November 18, 1987, as executed and as heretofore or hereafter amended or supplemented, respectively, each as executed and as heretofore or hereafter amended or supplemented.

“Serial Bonds” means all Bonds and Parity Debt other than Term Bonds.

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

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

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

"Subordinate Tax Revenues" means all taxes pledged and annually allocated within the Plan Limit, following the Closing Date, and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and including that portion of such taxes otherwise required by Section 33334.3 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 Bonds, if any, and that portion of any Parity Debt (including applicable reserves and financing costs) issued to finance amounts deposited in the Low and Moderate Income Housing Fund for use pursuant to Section 33334.2 of the Law to increase or improve the supply of low and moderate income housing within or of benefit to the Project Area; but excluding all other amounts of such taxes (if any) (i) required pursuant to the Senior Bonds Indenture to pay the Agency's obligations with respect to the Senior Bonds, (ii) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.3 of the Law for increasing and improving the supply of low and moderate income housing, (iii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Code and (iv) amounts payable by the Agency under the Senior Pass-Through Agreements or pursuant to Section 33607.5 and 33607.7 or the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds or to the payment of Parity Debt, as applicable.

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

"2011 Taxable Bonds" means the Parity Bonds entitled Redevelopment of the City of Davis, Davis Redevelopment Project, 2011 Subordinate Taxable Tax Allocation Bonds, Series B issued pursuant to this Indenture, as supplemented and amended by a First Supplement To Indenture of Trust, dated as of March 1, 2011, by and between the Agency and the Trustee.

"2011 Tax-Exempt Bonds" means the means the Redevelopment of the City of Davis, Davis Redevelopment Project, 2011 Subordinate Tax Allocation Bonds, Series A

"2003 Bonds" means the \$9,265,000 aggregate principal amount of Davis Redevelopment Project 2003 Tax Allocation Bonds.

"2007 Bonds" means the \$12,140,000 aggregate principal amount of Redevelopment Agency of the City of Davis Davis Redevelopment Project 2007 Tax Allocation Refunding Bonds.

"Term Bonds" means any maturity of the Bonds and any maturity of Parity Debt payable before the specified maturity date thereof from Sinking Account payments established for that purpose.

THE INDENTURE

Establishment of Funds and Accounts; Flow of Funds

Redevelopment Fund. There is established pursuant to the Indenture a separate fund known as the Redevelopment Fund (the "Redevelopment Fund"), which the Agency covenants and agrees to cause to be maintained and which shall be held in trust by the Agency. The proceeds of the Bonds deposited in the Redevelopment Fund shall be maintained in a segregated account, separate and apart from other moneys of the Agency, and shall be used in the manner provided by the Law solely for the purpose of aiding in financing the Redevelopment Project, including payment of any remaining unpaid Costs of Issuance. The Agency covenants that no funds on deposit in the Redevelopment Fund shall be applied for any purpose not authorized by the Law and the provisions of the Indenture.

Special Fund; Deposit of Subordinate Tax Revenues. There is established pursuant to the Indenture a special fund to be known as the "Special Fund", which shall be held by the Agency. The Agency shall transfer all of the Subordinate Tax Revenues received in any Bond Year to the Special Fund promptly upon receipt thereof by the Agency, until such time during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Redemption Account in such Bond Year pursuant to the Indenture and any applicable Supplemental Indenture.

All Subordinate Tax Revenues received by the Agency during any Bond Year in excess of the amount required to be deposited in the Special Fund during such Bond Year pursuant to the Indenture shall be released from the pledge and lien thereunder for the security of the Bonds and Parity Debt and may be applied by the Agency for any lawful purposes of the Agency, including but not limited to the payment of Subordinate Debt. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and Parity Debt and the payment in full of all other amounts payable hereunder and under any Supplemental Indenture, the Agency shall not have any beneficial right or interest in the moneys on deposit in the Special Fund, except as may be provided in the indenture and in any Supplemental Indenture.

Deposit of Amounts by Trustee. There is established pursuant to the Indenture a trust fund to be known as the Debt Service Fund, which shall be held by the Trustee in trust. Moneys in the Special Fund shall be transferred by the Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established by the Indenture in the Debt Service Fund, and in the following order of priority:

- (a) Interest Account. On or before the third (3rd) Business Day preceding each Interest Payment Date, the Agency shall withdraw from the Special Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds and Parity Debt on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds and Parity Debt as it shall become due and payable (including accrued interest on any Bonds and Parity Debt redeemed prior to maturity pursuant to the Indenture).
- (b) Principal Account. On or before the third (3rd) Business Day preceding November 1 in each year on which principal is payable on the Bonds and Parity Debt the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the maturing principal becoming due and payable on the Bonds and maturing Term Bonds on the next applicable

payment date. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next applicable payment date on all of the Outstanding Serial Bonds and maturing Term Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying maturing principal of the Bonds.

- (c) Sinking Account. No later than the third (3rd) Business Day preceding each date on which any Outstanding Term Bonds are subject to mandatory redemption pursuant to the Indenture, or otherwise for purchases of Term Bonds pursuant to the Indenture, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds required to be redeemed on such November 1 pursuant to the Indenture. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Term Bonds as it shall become due and payable upon redemption or purchase pursuant to the Indenture
- (d) Reserve Account. In the event that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency shall transfer Subordinate Tax Revenues to the Trustee in an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. If there shall then not be sufficient Subordinate Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Agency shall be obligated to continue making transfers as Subordinate Tax Revenues become available in the Special Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account, the Principal Account and the Sinking Account in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account semiannually on or before the Business Day preceding each May 1 and November 1 by the Trustee and deposited in the Interest Account. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Agency shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required by the Indenture, then to the Agency for deposit by the Agency into the Redevelopment Fund.

At the request of the Agency, the Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of separate issues of the Bonds in conformity with applicable provisions of the Code or otherwise for such purposes as the Agency in its discretion shall determine. In this regard, moneys in the sub-account established for deposit of a portion of the proceeds of the 2011 Taxable Bonds shall be retained in the Reserve Account upon the final maturity of the 2011 Taxable Bonds to the extent necessary to then maintain the amount of the Reserve Requirement in the Reserve Account.

- (e) Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to optional redemption under the Indenture or any Supplemental Indenture the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Agency pursuant to the Indenture or such Supplemental Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date pursuant to such optional redemption. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be redeemed pursuant to such optional redemption on the date set for such redemption.

Investment of Funds

Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Redemption Account shall be invested by the Trustee in Permitted Investments as directed by the Agency. In the absence of any such direction, the Trustee shall invest any such moneys in Permitted Investments described in clause (d) of the definition thereof, which by their terms mature prior to the date on which such moneys are required to be paid out hereunder. Moneys in the Special Fund and the Redevelopment Fund may be invested by the Agency in any obligations in which the Agency is legally authorized to invest its funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee shall be deposited in the Interest Account; *provided, however*, that all interest or gain from the investment of amounts in the Reserve Account shall be deposited by the Trustee in the Interest Account, to the extent not required to cause the balance in the Reserve Account to equal the Reserve Requirement. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by the Indenture. Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Agency for earnings derived from funds that have been invested.

Parity Debt

In addition to the Bonds, the Agency may issue or incur Parity Debt in such principal amount as shall be determined by the Agency, pursuant to a Supplemental Indenture adopted or entered into by the Agency. The Agency may issue or incur such Parity Debt subject to the following specific conditions precedent:

- (a) The Agency shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures.
- (b) The Gross Tax Revenues estimated to be received for the then current Bond Year based on the most recent assessed valuation of property in the Redevelopment Project as evidenced in the written records of the County, plus (at the option of the Agency) the Additional Allowance, shall be at least equal to one hundred thirty percent (130%) of (i) Maximum Annual Debt Service on all Bonds which will be Outstanding immediately following the issuance of such Parity Debt, plus (ii) Maximum Annual Debt Service on all Senior Bonds which will be Outstanding immediately following the issuance of such Parity Debt, plus (iii) amounts paid with respect to the most recent fiscal year for the Senior Pass-Through Agreements. Notwithstanding any other provision of this Indenture, for purposes of the calculation of Subordinate Tax Revenues under this paragraph (b), (i) the tax rate for the property in the Redevelopment Project shall be assumed to be one percent (1%), and (ii) if the most recent assessed valuation of the property in the Redevelopment

Project includes an adjustment upward of two percent (2%), then the assessed valuation of the property in the Redevelopment Project during the base year for the Redevelopment Plan shall also be adjusted upward to reflect any upward adjustment to the base year made by the County for the calculation of Subordinate Tax Revenues, such adjustment not to exceed two percent (2%).

- (c) The Supplemental Indenture providing for the issuance of such Parity Debt shall provide that interest thereon shall not be payable on any dates other than June 1 and December 1, and principal thereof shall be payable on December 1 in any year in which principal is payable.
- (d) The Supplemental Indenture providing for the issuance of such Parity Debt shall provide for the deposit into the Reserve Account of an amount required to cause the balance therein to equal the full amount of the Reserve Requirement.
- (e) The issuance of such Parity Debt shall not cause the Agency to exceed the maximum amount of tax increment revenues permitted within the applicable Plan Limit.

Subordinate Debt

In addition to the Bonds, the Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

- (a) The Agency shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures;
- (b) If, and to the extent, such Subordinate Debt is payable from Subordinate Tax Revenues within the Plan Limit on the amount of Subordinate Tax Revenues, then all Outstanding Bonds, Parity Debt and Subordinate Debt coming due and payable following the issuance or incurrence of such Subordinate Debt shall not exceed the maximum amount of Subordinate Tax Revenues permitted within the Plan Limit.

Other Covenants of the Agency

Punctual Payment. The Agency shall punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds together with the premium thereon, if any, in strict conformity with the terms of the Bonds and of the Indenture. The Agency shall faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and the Bonds.

Limitation on Additional Indebtedness; Against Encumbrances. The Agency covenants that, so long as the Bonds are Outstanding, the Agency shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable from all or any part of the Subordinate Tax Revenues, excepting only the Bonds, any Parity Debt and any Subordinate Debt. The Agency will not otherwise encumber, pledge or place any charge or lien upon any of the Subordinate Tax Revenues or other amounts pledged to the Bonds superior to the pledge and lien herein created for the benefit of the Bonds.

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

Books and Accounts; Financial Statements. The Agency shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the City of Davis, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Subordinate Tax Revenues and the Special Fund. Such books of record and accounts shall, at all times during business hours and upon reasonable prior notice, be subject to the inspection of the Owners of not less than ten percent (10%) in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The Agency will cause to be prepared, within one hundred and eighty (180) days after the close of each Fiscal Year so long as the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Subordinate Tax Revenues, all disbursements of Subordinate Tax Revenues and the financial condition of the Redevelopment Project, including the balances in all funds and accounts relating to the Redevelopment Project, as of the end of such Fiscal Year. The Agency shall furnish a copy of such financial statements to any Owner upon reasonable request and at the expense of such Owner. In addition, the Agency shall deliver to the Trustee, annually, a Written Certificate of the Agency and a written certificate or opinion of an Independent Accountant stating that the Agency is in compliance with its obligations under the Indenture.

Protection of Security and Rights of Owners. The Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the Closing Date, the Bonds shall be incontestable by the Agency.

Payments of Taxes and Other Charges. Except as otherwise provided in the Indenture, the Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may be lawfully imposed upon the Agency or the properties then owned by the Agency in the Project Area, or upon the revenues therefrom when the same shall become due. Nothing shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Redevelopment Project or any part thereof.

Taxation of Leased Property. All amounts derived by the Agency pursuant to Section 33673 of the Law with respect to the lease of property for redevelopment shall be treated as Subordinate Tax Revenues for all purposes of the Indenture.

Disposition of Property. The Agency will not participate in the disposition of any land or real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) so that such disposition shall, when taken together with other such dispositions, aggregate more than ten percent (10%) of the land area or more than ten percent (10%) of the most recent assessed valuation of the property in the Project Area unless such disposition is permitted as provided in this the Indenture. If the Agency proposes to participate in such a disposition, it shall thereupon appoint an Independent Redevelopment Consultant to report on the effect of said proposed disposition. If the Report of the Independent Redevelopment Consultant concludes that the security of the Bonds or the rights of the Owners will not be materially impaired by said proposed disposition, the Agency may thereafter make such disposition. If said Report concludes that such security will be materially impaired by said proposed disposition by causing Subordinate Tax Revenues to fall below one hundred thirty percent (130%) of Maximum Annual Debt Service, the Agency shall disapprove said proposed disposition.

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

Private Activity Bond Limitation. The Agency shall assure that the proceeds of the 2011 Tax-Exempt Bonds are not so used as to cause the 2011 Tax-Exempt Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2011 Tax-Exempt Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Rebate Requirement. The Agency shall take any and all actions necessary to assure compliance with section 148 (f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2011 Tax-Exempt Bonds.

Maintenance of Tax-Exemption. The Agency shall take all actions necessary to assure the exclusion of interest on the 2011 Tax-Exempt Bonds from the gross income of the Owners of the 2011 Tax-Exempt Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the 2011 Tax-Exempt Bonds.

Compliance with the Law: Low and Moderate Income Housing Fund. The Agency shall ensure that all activities undertaken by the Agency with respect to the redevelopment of the Project Area are undertaken and accomplished in conformity with all applicable requirements of the Redevelopment Plan and the Law, including, without limitation, duly noticing and holding any public hearing required by any provision of the Law prior to application of proceeds of the Bonds to any portion of the Redevelopment Project. Without limiting the generality of the foregoing, the Agency covenants that it shall deposit or cause to be deposited in the Low and Moderate Income Housing Fund established pursuant to Section 33334.3 of the Law, all amounts when, as and if required to be deposited therein pursuant to the Law.

Plan Limit. The Agency shall manage its fiscal affairs in a manner which ensures that it will have sufficient Subordinate Tax Revenues available under the Plan Limit in the amounts and at the times required to enable the Agency to pay the principal of and interest and premium (if any) on the Bonds and any Parity Debt when due.

The Agency will file annually with the Trustee on or prior to June 1 of each year a Written Certificate of the Agency certifying: (i) that Gross Tax Increment received by the Agency through the date of such certificate, combined with the amount remaining to be paid on all outstanding obligations of the Agency payable from Gross Tax Increment, to the extent the amounts payable on such obligations are reasonably ascertainable, will not exceed the Plan Limit; To the extent that (x) the cumulative Net Tax Increment remaining to be received under the Plan Limit, , equals or exceeds 75% of the cumulative principal of and interest on all outstanding Bonds, Parity Debt and Senior Bonds, , then all Excess Subordinate Tax Revenues will be deposited with the Trustee and invested in defeasance investments as set forth in clause (a) of the definition of “Permitted Investments” and may only be used to pay debt service or call bonds or such outstanding obligations.

Continuing Disclosure. The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the indenture, failure of the Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default under the Indenture. However, any Participating Underwriter as defined in such Certificate or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Agency to comply with its obligations under the Indenture.

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 the rights and benefits provided in the Indenture.

Amendment of the Indenture

Amendment With Consent of Owners. The Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended by a Supplemental Indenture which shall become binding upon adoption, but without the consent of any Owners, 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 limit or surrender any rights or powers herein reserved to or conferred upon the Agency; or
- (b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the indenture, or in any other respect whatsoever as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not, in the reasonable determination of the Agency, materially adversely affect the interests of the Owners; or
- (c) to provide for the issuance of Parity Debt in accordance with the Indenture; or
- (d) to amend any provision hereof relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of nationally recognized Bond Counsel.

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, or (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent. In addition, the Trustee shall be entitled to an opinion of counsel concerning the Supplemental Indenture's lack of any material adverse effect on the Owners.

Events of Defaults and Remedies

Events of Default and Acceleration of Maturities. The following events shall constitute Events of Default hereunder:

- (a) if default shall be made by the Agency in the due and punctual payment of the principal of or interest or redemption premium (if any) on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of sixty (60) days following receipt by the Agency of written notice from the Trustee or any Owner of the occurrence of such default provided that if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such 60 day period, such failure will not constitute an Event of Default if corrective action is instituted by the Agency within

such 60 day period and the Agency thereafter diligently and in good faith cures such failure in a reasonable period of time; or

- (c) if the Agency files a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction will approve a petition seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will approve a petition, 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.

If an Event of Default has occurred under this Section and is continuing, the Trustee may, and if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) exercise any other remedies available to the Trustee and the Bond Owners in law or at equity.

Immediately upon receiving notice or actual knowledge of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Agency by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion may, also give such notice to the Owners by mail, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law), and the reasonable expenses of the Trustee, (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder 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 of Bonds

Defeasance of Bonds If the Agency shall pay and discharge the entire indebtedness on all Bonds or any portion thereof in any one or more of the following ways:

- (i) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on all or the applicable portion of Outstanding Bonds, as and when the same become due and payable;
- (ii) by irrevocably depositing with the Trustee or another fiduciary, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay all or the applicable portion of Outstanding Bonds, including all principal, interest and redemption premiums, or;
- (iii) by irrevocably depositing with the Trustee or another fiduciary, in trust, Federal Securities in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds or the applicable portion thereof (including all principal, interest and redemption premiums) at or before maturity;

and, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then, at the election of the Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Subordinate Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Agency under the Indenture shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (a) the covenants of the Agency hereunder with respect to the Code, (b) the obligation of the Trustee to transfer and exchange Bonds hereunder, and (c) the obligation of the Agency to pay or cause to be paid to the Owners, solely from the amounts so deposited with the Trustee, all sums due thereon. In the event the Agency shall, pursuant to the foregoing provisions, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Agency all such instruments as may be necessary or desirable to evidence such discharge, including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Agency has determined to pay and discharge in part.

In the case of a defeasance or payment of all of the Bonds Outstanding, any funds thereafter held by the Trustee which are not required for said purpose or for payment of amounts due the Trustee pursuant to the Indenture shall be paid over to the Agency.

FIRST SUPPLEMENT

The First Supplement provides for the addition of Article X to the Indenture providing for the issuance of the Redevelopment Agency of the City of Davis, Davis Redevelopment Project, 2011 Subordinate Taxable Tax Allocation Refunding Bonds, Series B (the "Series B Bonds").

Authorization of Series B Bonds

The Series B Bond are authorized to be issued by the Agency as Parity Debt under and subject to the terms of the Indenture and the Law. The Indenture constitutes a continuing agreement with the Owners of all of the Series B Bonds issued thereunder and then Outstanding to secure the full and final payment of the principal amount and interest thereon and redemption premium, if any, with respect to all of the Series B Bonds which may from time to time be executed and delivered thereunder, subject to the covenants, agreements, provisions and conditions contained in the Indenture

Security for Series B Bonds

The Series B Bonds shall be Parity Bonds which shall be secured in the manner and to the extent set forth in the Indenture. The Series B Bonds shall be secured (on a parity with all other Bonds issued under the Indenture) by a first pledge of and lien on all of the Subordinate Tax Revenues and a pledge of all of the moneys in the Special Fund, the Interest Account, the Principal Account, the Sinking Account, the Redemption Account and the Reserve Account, including all amounts derived from the investment of such moneys.

Continuing Disclosure

The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate relating to the Series B Bonds. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with such Continuing Disclosure Certificate will not be considered an Event of Default under the Indenture; however, any Participating Underwriter or any holder or beneficial owner of the Series B Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Agency to comply with its obligations under the Indenture.

Federal Income Tax Provisions Do Not Apply

Because the Agency has determined that interest payable with respect to the Series B Bonds shall be subject to Federal income taxation, the Sections of the Indenture relating to Federal income tax-exemption shall not apply to the Series B Bonds.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$13,310,000

**REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
2011 Subordinate Tax Allocation Bonds, Series A
and**

\$4,690,000

**REDEVELOPMENT AGENCY OF THE CITY OF DAVIS
Davis Redevelopment Project
2011 Subordinate Taxable Tax Allocation Bonds, Series B**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Redevelopment Agency of the City of Davis (the "Agency") in connection with the issuance of the Agency's \$13,310,000 aggregate principal amount of Redevelopment Agency of the City of Davis, Davis Redevelopment Project 2011 Subordinate Tax Allocation Bonds, Series A and \$4,690,000 aggregate principal amount of Subordinate Taxable Tax Allocation Bonds, Series B (together, the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of March 1, 2011, as supplemented by a First Supplement to Indenture of Trust, dated as of March 1, 2011 (together, the "Indenture"), between the Agency and U.S. Bank National Association (the "Trustee"). The Agency covenants and agrees as follows:

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

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

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

"*Dissemination Agent*" shall U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

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

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

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

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

Section 3. Provision of Annual Reports.

(a) The Agency shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the Agency's fiscal year (which currently would be March 31 each year based on the Agency's fiscal year ending June 30), commencing with the report for the 2010-11 Fiscal Year, provide to the MSRB, in electronic form as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if 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) If the Agency is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Agency shall provided to the MSRB, in electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; 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 Certificate, 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 incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements are not available by the time the Annual Report is required to be filed under 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.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing (all capitalized terms have the meaning of such terms in the Official Statement):

- (i) information, updated to incorporate information with respect to the most recently ended Fiscal Year, of the type included in Table 4 of the Official Statement "Largest Property Taxpayers", in Table 6 of the Official Statement "Historic Assessed Values", and in Table 8 of the Official Statement "Historical Analysis of Tax Revenues"; and
- (ii) a description of any Parity Debt (date, amount, term, rating, insurance) issued by the Agency in the Fiscal Year to which the Annual Report pertains.
- (iii) A description of any payments made by the Agency of the type described in "BOND OWNERS' RISKS - State Budget Deficit - ERAF".

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Agency shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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) The Agency shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

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

- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the Agency or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the Agency or an obligated person, or the sale of all or substantially all of the assets of the Agency or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, the Agency shall, or shall cause the Dissemination Agent (if not the Agency) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above 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 under the Indenture.

(c) The Agency acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material." The Agency shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the Agency determines the event's occurrence is material for purposes of U.S. federal securities law.

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

Section 7. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. The Dissemination may resign by providing thirty days written notice to the Agency and the Trustee.

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

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings in this Official Statement, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended under the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

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

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this Disclosure 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 Certificate 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 Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Dissemination Agent and the Trustee shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Agency for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Agency from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Agency hereunder including the Annual Report and shall not be deemed to be acting in any fiduciary capacity for the Agency, Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon and directions from the Agency, or an opinion of nationally recognized bond counsel. Neither the Trustee nor the Dissemination Agent shall have any liability to any party for any monetary damages or other financial liability of any kind whatsoever related to or arising from any breach of this Disclosure Certificate. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the Redevelopment Project to be an obligated person as defined in the Rule, nothing contained in this Official Statement shall be construed to require the Agency to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Certificate shall be deemed to obligate the Agency to disclose information concerning any owner of land within the Agency except as required as part of the information required to be disclosed by the Agency under Section 4 and Section 5 hereof.

Date: _____, 2011

REDEVELOPMENT AGENCY OF THE
CITY OF DAVIS

By: _____
Finance Director

ACKNOWLEDGED AND ACCEPTED
U.S. Bank National Association,
as Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Redevelopment Agency of the City of Davis

Name of Bond Issues: \$13,310,000 principal amount of Redevelopment Agency of the City of Davis, Davis Redevelopment Project 2011 Subordinate Tax Allocation Bonds, Series A and \$4,690,000 principal amount of Redevelopment Agency of the City of Davis, Davis Redevelopment Project 2011 Subordinate Taxable Tax Allocation Bonds, Series B

Date of Issuance: March 4, 2011

NOTICE IS HEREBY GIVEN that the Redevelopment Agency of the City of Davis (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by a Continuing Disclosure Certificate with respect to the Bonds. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

REDEVELOPMENT AGENCY OF THE
CITY OF DAVIS

By _____

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272