

## PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2011

**NEW ISSUE — BOOK-ENTRY ONLY****RATING: Standard & Poor's: "\_\_\_"**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements discussed herein, interest and original issue discount on the Series A Bonds is excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest and original issue discount on the Bonds is exempt from California personal income tax. See the caption "TAX MATTERS."*

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

**Garden Grove Agency for Community Development**  
**2011 Subordinate Tax Allocation Bonds**  
**(Garden Grove Community Project)**  
**Series A**

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

**Garden Grove Agency for Community Development**  
**2011 Subordinate Tax Allocation Bonds**  
**(Garden Grove Community Project)**  
**Series B (Taxable)**

Dated: Date of Delivery

Due: December 1, as shown below

The 2011 Subordinate Tax Allocation Bonds (Garden Grove Community Project) Series A (the "Series A Bonds") and 2011 Subordinate Tax Allocation Bonds (Garden Grove Community Project) Series B (Taxable) (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds") are being issued by the Garden Grove Agency for Community Development (the "Agency") pursuant to the California Community Redevelopment Law, constituting Part 1, Division 24 (commencing with Section 33000) of the California Health and Safety Code (the "Redevelopment Law") and an Indenture of Trust dated as of June 1, 2011 (the "Indenture"), by and between the Agency and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"). The Bonds are being issued to refinance certain loans of the Agency as described herein, and to finance [the McWhinney Covenant Consideration, public improvements consistent with the Agency's implementation plan and redevelopment activities with respect to the Agency's Garden Grove Community Project (the "Project Area"), as described herein]. The Bonds are special obligations of the Agency and are payable from Tax Revenues (as defined herein) consisting primarily of tax increment derived from property in the Project Area and allocated to the Agency pursuant to the Redevelopment Law, on a subordinate basis to the Agency's 2003 Tax Allocation Refunding Bonds (Garden Grove Community Project) (the "Senior Bonds"). No funds or properties of the Agency, other than the Tax Revenues are pledged to secure the Bonds. The Agency has covenanted in the Indenture not to issue any additional bonds senior in right of payment to the Bonds (except for purposes of refunding the Senior Bonds). The Agency may issue additional parity obligations pursuant to the terms of the Indenture.

The Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of interests in the Bonds will not receive certificates representing their interest in the Bonds purchased.

Interest on the Bonds will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2012. Payments of principal, premium, if any, and interest on the Bonds will be payable by the Trustee, to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described herein.

**The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE Bonds — Redemption of the Bonds" herein.**

**THE BONDS ARE NOT A DEBT, LIABILITY OR OBLIGATION OF THE CITY OF GARDEN GROVE (THE "CITY"), THE STATE OF CALIFORNIA (THE "STATE"), 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 TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. NEITHER THE AGENCY, 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 general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used and not defined on this cover page shall have the meanings set forth herein. For a discussion of some of the risks associated with a purchase of the Bonds, see "RISK FACTORS" herein.

**MATURITY SCHEDULE**  
**(See inside cover)**

*The Bonds are offered, when, as and if issued by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and to certain other conditions. Jones Hall, A Professional Law Corporation, San Francisco, California, will serve as Disclosure Counsel to the Agency. Certain matters will be passed upon for the Underwriter by Nossaman LLP, Irvine, California. It is anticipated that the Bonds in book-entry form will be available for delivery through the DTC book-entry system in New York, New York on or about \_\_\_\_\_, 2011.*

**[STONE & YOUNGBERG LLC LOGO]**

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

\* Preliminary, subject to change.

## Maturity Schedule

Base CUSIP†: \_\_\_\_\_

### 2011 SERIES A BONDS

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u>
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\$ \_\_\_\_\_ % Term Bonds due December 1, 20\_\_, Yield: \_\_\_\_\_%; CUSIP: \_\_\_\_

\$ \_\_\_\_\_ % Term Bonds due December 1, 20\_\_, Yield: \_\_\_\_\_%; CUSIP: \_\_\_\_

### 2011 SERIES B BONDS

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP†</u>
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\$ \_\_\_\_\_ % Term Bonds due December 1, 20\_\_, Yield: \_\_\_\_\_%; CUSIP: \_\_\_\_

\$ \_\_\_\_\_ % Term Bonds due December 1, 20\_\_, Yield: \_\_\_\_\_%; CUSIP: \_\_\_\_

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

## 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.

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

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.

## **GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT**

### **CITY COUNCIL AND AGENCY BOARD**

William Dalton, Mayor and Agency Member  
Steve Jones, Mayor Pro Tem and Agency Member  
Bruce A. Broadwater, Council Member and Chair  
Kris Beard, Council Member and Agency Member  
Dina Nguyen, Council Member and Vice Chair

### **AGENCY AND/OR CITY STAFF**

Matthew J. Fertil, Director/City Manager  
Kingsley C. Okereke, Finance Director  
William Murray, Director of Public Works

### **SPECIAL SERVICES**

#### **Bond Counsel**

Stradling Yocca Carlson & Rauth, a Professional Corporation  
*Newport Beach, California*

#### **Disclosure Counsel**

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

#### **Agency Counsel**

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Underwriter's Counsel  
Nossaman, LLP  
*Irvine, California*

#### **Fiscal Consultant**

HdL Coren & Cone  
*Diamond Bar, California*

#### **Trustee**

J.P. Morgan Trust Company, National Association  
*Los Angeles, California*

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**Garden Grove Agency for Community Development  
2011 Subordinate Tax Allocation Bonds  
(Garden Grove Community Project)  
Series A**

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

**Garden Grove Agency for Community Development  
2011 Subordinate Tax Allocation Bonds  
(Garden Grove Community Project)  
Series B (Taxable)**

**INTRODUCTION**

*This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in "APPENDIX D SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE".*

**Authority for Issuance.** The Agency is a redevelopment agency existing under the Community Redevelopment Law of the State of California (the "**State**"), constituting Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code, as amended (the "**Redevelopment Law**"). The 2011 Subordinate Tax Allocation Bonds (Garden Grove Community Project) Series A (the "**Series A Bonds**") and the 2011 Subordinate Tax Allocation Bonds (Garden Grove Community Project) Series B (Taxable) (the "**Series B Bonds**") and, together with the Series A Bonds, the "**Bonds**") are being issued under the Redevelopment Law and pursuant to an Indenture of Trust, dated as of June 1, 2011, by and between the Agency and J.P. Morgan Trust Company, National Association, as trustee (the "**Trustee**").

**Use of Proceeds.** The proceeds of the Bonds will be applied by the Agency to (i) prepay and refinance all of the Credit Agreement with Union Bank of California, N.A., dated as of June 2, 2008, providing for a loan to the Agency in the amount of up to \$32 million (the "**2008 Loan**"), (ii) prepay and refinance all or a portion of funds advanced from the Agency's Low and Moderate Income Housing Fund for the purpose of meeting certain ERAF and SERAF obligations of the Agency payable pursuant to the Redevelopment Law for the benefit of other taxing agencies (collectively, the "**SERAF Housing Fund Obligations**"), (iii) finance [the payment obligation of the Agency contained in the McWhinney DDA (the "McWhinney Covenant Consideration"), to the extent permitted by law, public improvements consistent with the Agency's implementation plan or fund certain redevelopment activities of benefit to the Agency's Garden Grove Community Project], (iv) fund a reserve fund for the Bonds and (v) pay costs of issuance. See "FINANCING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

**The City, the Agency and the Redevelopment Project.** The City of Garden Grove

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\* Preliminary, subject to change.

(the "**City**") encompasses approximately 17 square miles. As of January 1, 2011, the City had a population of approximately 171,327. The City is located in Orange County approximately 40 miles southeast of the downtown area of the City of Los Angeles. Incorporated on June 18, 1956, the City operates as a general law city under California law. The City has a council-manager form of government, with the Mayor elected at large for a two-year term and four Council members elected at large for four-year terms. The City Council acts as the governing board of the Agency. See the caption "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT" herein.

The Agency was established pursuant to the Redevelopment Law. The Agency was activated on November 20, 1970, by City Ordinance No. 1144. The Project Area consists of several component areas resulting from a series of actions by the City Council of the City, including the project area (the "**Original Project Area**") as originally established pursuant to the Redevelopment Plan for the Redevelopment Project known as the "Garden Grove Community Project" as adopted and approved by the City on June 26, 1973 by Ordinance No. 1339. The Garden Grove Community Project has been amended on a variety of occasions between 1974 and 2002. Several of these amendments expanded the Project Area. The Project Area, as so amended, consisting of component areas described herein as the 1992 Area, the 1998 Area and the 2002 Area (as combined, the "**Project Area**"), includes approximately 1,975.4 acres. The Project Area is comprised of industrial, residential, commercial and public uses. [UPDATE]

The Agency's receipt of Tax Revenues which comprise the principal security for the Bonds is subject to certain (i) statutory housing obligations, (ii) obligations under certain agreements entered into by the Agency with other taxing entities and a private entity ("**Tax Sharing Agreements**"), (iii) obligations to other taxing entities arising under provisions of the Redevelopment Law relating to sharing of tax increment (the "**Tax Sharing Statutes**") as more particularly described under the caption "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Tax Sharing Statutes," and "— Tax Sharing Agreements", and (iv) the prior lien on Senior Tax Revenues as more particularly described under the caption "FINANCIAL INFORMATION CONCERNING TAX REVENUES – Outstanding Senior Indebtedness of the Agency." The Redevelopment Plan provides that the Agency is authorized to receive revenues described at subsection (b) of Section 33670 of the Redevelopment Law comprising a portion of ad valorem taxes levied by the County with respect to taxable property in the Project Area; such revenues constitute "Tax Increment Revenues." Under the Indenture, Tax Revenues are a portion of Tax Increment Revenues. See the caption "SECURITY FOR THE BONDS — Allocation of Taxes; Tax Revenues." Pursuant to certain limitations set forth in the Redevelopment Plan as provided under the Redevelopment Law (the "**Plan Limitations**"), the Agency will not receive Tax Increment Revenues after those times or in excess of those amounts set forth herein as to the Project Area under the caption "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Plan Limitations." Investors should assume the limitations are applicable to the Bonds and that the Agency will not receive Tax Revenues from the respective areas to pay debt service on the Bonds after such respective dates. The Agency's time to receive Tax Revenues from the portion of the Project Area related to substantial portions of the Project Area [ORIGINAL PROJECT AREA?? CONFIRM] will expire before the final maturity of the Bonds. Tax Revenues are subject to economic and legislative risks. See "BOND OWNERS' RISKS" herein.

**Security for the Bonds.** The Bonds will be payable from and secured by Tax Revenues (as defined herein) allocated to Agency from the Project Area on a subordinate basis to the Agency's Senior Bonds, described below.

In California, the financing and refinancing of redevelopment projects may be provided by the issuance of tax allocation bonds. Such bonds are payable from property taxes collected within a redevelopment project area attributable to the increase in assessed valuation of property therein, as explained in greater detail above and herein. The Bonds are payable from and secured by certain tax increment revenues of the Agency constituting Tax Revenues generated from property in the Project Area. The term "**Tax Revenues**" is defined in the Indenture and generally includes certain *ad valorem* property taxes attributable to increases in the assessed valuation of certain property (except public property and property exempt from taxation) in the Project Area over that shown on the assessment rolls for the adjusted base year assessment roll. Such taxes are eligible for allocation to the Agency pursuant to the Redevelopment Law in connection with the Project Area. Tax Revenues are more fully described under the caption "SECURITY FOR THE BONDS – Allocation of Taxes".

As more fully described under "FINANCIAL INFORMATION CONCERNING TAX REVENUES – Outstanding Senior Indebtedness of the Agency," the Agency has certain outstanding obligations secured by the Tax Revenues from the Project Area payable on a superior basis to the Bonds:

- \$57,025,000 aggregate principal amount of Garden Grove Agency for Community Development 2003 Tax Allocation Refunding Bonds (the "**Senior Bonds**"), presently outstanding in the amount of \$\_\_\_\_\_. The Senior Bonds were issued pursuant to an Indenture of Trust, dated as of June 1, 2003 (the "**Senior Bonds Indenture**"), by and between the Agency and J. P. Morgan Trust Company, National Association.

Pursuant to certain "pass-through agreements" with the County and various taxing entities, the Agency is required to make certain payments to the County out of the Tax Increment allocable to the Project Area on a basis senior to the Bonds and the Senior Bonds. In addition, pursuant to the Redevelopment Law, other Taxing Agencies receive pass-through payments of Tax Increment relating to the area added to the Project Area in 1997 ("**Statutory Pass-Through Payments**"). Such pass-through amounts are paid on a senior basis to the Bonds and the Senior Bonds. See "SECURITY FOR THE BONDS - The Pass-Through Agreements" herein.

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

**State Legislation.** [discuss recent legislation re: RDAs] There is currently significant uncertainty as to the future of the funding and administration of redevelopment agencies and redevelopment projects in the State of California, due to certain proposals in the Governor's proposed State Budget for fiscal year 2011-12 to disestablish redevelopment agencies and providing for the transfer of unspent low and moderate income housing funds to applicable local housing authorities.

**Continuing Disclosure.** The Agency will undertake all responsibilities for continuing disclosure to Owners of the Bonds as described below. The Agency has covenanted in the Indenture and in a Continuing Disclosure Certificate to prepare and deliver an annual report to the Municipal Securities Rule-making Board, and to provide certain other information. The specific nature of the information to be contained in the Annual Report or the notices of material



events is described in "APPENDIX G – 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 never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

**Miscellaneous.** There is set forth in this Official Statement, which includes the cover page and Appendices hereto, a brief description of the Bonds, the Agency, Tax Revenues, the Project Area, security for the Bonds, risk factors and limitations on Tax Revenues and certain other information relevant to the issuance of the Bonds. All references herein 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. A summary of certain provisions of the Indenture is included in APPENDIX D. A recent financial statement of the Agency is included in APPENDIX B. The information set forth herein and in the Appendices hereto has been furnished by the Agency and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. All capitalized terms used herein and not normally capitalized have the meanings assigned thereto in the Indenture, unless otherwise stated herein.

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

## THE FINANCING PLAN

**Refinancing Plan.** A portion of the proceeds of the Bonds will be used to prepay (i) the 2008 Loan in the amount of \$\_\_\_\_\_ and (ii) the SERAF Housing Fund Obligations in the amount of \$\_\_\_\_\_.

**The Projects.** A portion of the 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 "Projects"). The Agency has various redevelopment projects which it wishes to complete and which may be financed in whole or in part from Bonds proceeds. Actual projects to be financed will be determined by the Agency based upon various considerations to be made by the Agency and may include To the extent permitted by law, the Agency's payment obligation set forth in the Disposition and Development Agreement between the Agency and the Garden Grove MXD, LLC, dated as of April 13, 2010.

There is currently significant uncertainty as to the future of the funding and administration of redevelopment agencies and redevelopment projects in the State of California, due to certain proposals in Governor's proposed State Budget for fiscal year 2011-12. In addition, Governor Brown in his proposed State Budget for fiscal year 2011-12 seeks legislation disestablishing redevelopment agencies and providing for the transfer of unspent low and moderate income housing funds to the applicable local housing authority. Assuming the successful disestablishment of the Agency, it is possible that unspent Bond proceeds could be transferred to the City or a successor entity to the Agency or to the Housing Authority of the City of Garden Grove and therefore may not be available to finance Projects.

See "RISK FACTORS –State of California Fiscal Issues; ERAF; SERAF- Proposed 2011-12 Budget and Redevelopment Agencies."

### **ESTIMATED SOURCES AND USES OF FUNDS**

Set forth below are the estimated sources and uses of proceeds of the Bonds.

Sources:

Par Amount of Bonds  
Agency Funds on Hand  
Less: Original Issue Discount  
TOTAL SOURCES:

Uses:

Deposit to Prepayment Fund <sup>(1)</sup>  
Deposit to Redevelopment Fund  
Deposit to Debt Service Fund <sup>(2)</sup>  
Deposit to Reserve Account  
Underwriter's Discount  
Costs of Issuance <sup>(3)</sup>  
TOTAL USES:

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<sup>(1)</sup> Such amount to be used to prepay the 2008 Loan and a portion of the SERAF Housing Fund Obligations.

<sup>(2)</sup> Such amount to be used to pay capitalized interest on the Bonds through \_\_\_\_\_, 20\_\_.

<sup>(3)</sup> Includes legal fees, printing, rating agency fees and expenses and other issuance costs.

## ANNUAL DEBT SERVICE REQUIREMENTS OF THE BONDS

The following table provides the annual debt service requirements of the Bonds.

Year (Ending December 1)	Series A Bonds		Series B Bonds		Total
	Principal	Interest	Principal	Interest	
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
Totals					

## THE BONDS

### Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State of California and under authority granted to the Agency by the Redevelopment Law, the Agency's Resolution No. \_\_\_ adopted on June \_\_, 2011, authorizing resolutions of the City Council and the Indenture.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM THE TAX REVENUES, AS DESCRIBED HEREIN, AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS MAINTAINED UNDER THE INDENTURE, ON A SUBORDINATE BASIS TO THE SENIOR BONDS AND ON A PARITY WITH PARITY DEBT, IF ANY, AND, AS SUCH, ARE NOT A DEBT OF THE CITY OR THE STATE OR ANY OF THE STATE'S POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY, TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), AND NEITHER THE CITY NOR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY), IS LIABLE THEREFOR. THE BONDS ARE NOT PAYABLE FROM, AND ARE NOT SECURED BY, ANY FUNDS OF THE AGENCY, OTHER THAN THE TAX REVENUES PLEDGED PURSUANT TO THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION. NEITHER THE MEMBERS OF THE AGENCY NOR ANY PERSONS RESPONSIBLE FOR THE EXECUTION OF THE BONDS IS LIABLE PERSONALLY FOR PAYMENT OF THE BONDS BY REASON OF THEIR ISSUANCE.

### Description of the Bonds

The Bonds will be issued in authorized denominations of \$5,000 each or integral multiples thereof and are dated the date of original delivery of the Bonds. The Bonds mature on the respective dates and bear interest in the respective amounts set forth on the inside cover page hereof. Interest on the Bonds is payable on June 1 and December 1 of each year (collectively, the "Interest Payment Dates") commencing December 1, 2011.

The Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the Bonds as described herein. See APPENDIX E — "BOOK ENTRY ONLY SYSTEM" herein.

### Redemption

#### *Optional Redemption.*

*Series A Bonds.* The Series A Bonds maturing on or before December 1, 20\_\_\_, are not subject to optional redemption prior to maturity. The Series A Bonds maturing on or after December 1, 20\_\_\_, shall be subject to redemption, at the option of the Agency on any date on or after December 1, 20\_\_\_ as a whole, or in part among 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 the principal amount thereof 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, 20\_\_, are not subject to optional redemption prior to maturity. The Series B Bonds maturing on or after December 1, 20\_\_, shall be subject to redemption, at the option of the Agency on any date on or after December 1, 20\_\_ as a whole, or in part among 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 the principal amount thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

***Mandatory Sinking Account Redemption.***

*Series A Bonds.* The Series A Bonds maturing on December 1, 20\_\_ and December 1, 20\_\_ (the "**Series A Term Bonds**") shall also be subject to redemption in part by lot, from sinking account installments deposited in the Sinking Account on each December 1, on and after December 1, 20\_\_, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, according to the following schedules (provided, however, that if some but not all of such Series A Bonds have been redeemed, the total amount of all future Sinking Account payments attributable to such Series A Bonds shall be reduced by the aggregate principal amount of such Series A Bonds so redeemed, to be allocated among such Sinking Account payments on a pro rata basis in integral multiples of \$5,000 as determined by the Agency (written notice of which determination shall be given by the Agency to the Trustee)):

**Sinking Account Redemption of Series A Term Bonds  
Maturing on December 1, 20\_\_ in the Amount of \$ \_\_\_\_\_**

Sinking Fund Redemption Date (December 1)	Principal Amount to be Redeemed or Purchased
_____	_____

**Sinking Account Redemption of Series A Term Bonds  
Maturing on December 1, 20\_\_ in the Amount of \$ \_\_\_\_\_**

Sinking Fund Redemption Date (December 1)	Principal Amount to be Redeemed or Purchased
_____	_____

*Series B Bonds.* The Series B Bonds maturing on December 1, 20\_\_ and December 1, 20\_\_ (the "**Series B Term Bonds**") shall also be subject to redemption in part by lot, from sinking account installments deposited in the Sinking Account on each December 1, on and after December 1, 20\_\_, at a redemption price equal to the principal amount thereof to be

redeemed together with accrued interest thereon to the redemption date, without premium, according to the following schedules (provided, however, that if some but not all of such Bonds have been redeemed, the total amount of all future Sinking Account payments attributable to such Series B Bonds shall be reduced by the aggregate principal amount of such Series B Bonds so redeemed, to be allocated among such Sinking Account payments on a pro rata basis in integral multiples of \$5,000 as determined by the Agency (written notice of which determination shall be given by the Agency to the Trustee)):

**Sinking Account Redemption of Series B Term Bonds**  
**Maturing on December 1, 20\_\_ in the Amount of \$ \_\_\_\_\_**

Sinking Fund Redemption Date (December 1)	Principal Amount to be Redeemed or Purchased
_____	_____

**Sinking Account Redemption of Series B Term Bonds**  
**Maturing on December 1, 20\_\_ in the Amount of \$ \_\_\_\_\_**

Sinking Fund Redemption Date (December 1)	Principal Amount to be Redeemed or Purchased
_____	_____

In lieu of sinking account redemption of any of the Term Bonds, amounts on deposit in the Special Fund (to the extent not required to be transferred to the Trustee pursuant to the Indenture during the current Bond Year) may also be used and withdrawn by the Agency at any time for the purchase of such Bonds at public or private sale as and when at such prices (including brokerage and other charges and including accrued interest) as the Agency may in its discretion determine. The par amount of any of such Bonds so purchased by the Agency and delivered to the Trustee for cancellation in any twelve-month period ending on November 1 in any year shall be credited towards and shall reduce the par amount of Bonds required to be redeemed pursuant to the mandatory sinking fund installments described above on December 1 in such year.

**Selection of Bonds for Redemption.** For the purposes of redemption, Bonds of denominations greater than \$5,000 will be deemed to consist of \$5,000 portions, and any such portion may be separately redeemed. If the Agency redeems less than all Outstanding Bonds under an optional redemption as described above, or if the Agency purchases Bonds, each of the remaining principal and sinking account payments for the respective Bonds will be reduced by amounts that are in authorized denominations and are as nearly as possible proportional among the remaining principal and sinking account payments.

**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) 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 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 (if applicable) 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(s) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Office of the Trustee for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

While the Bonds are registered with DTC in the book-entry only system, such notices will be given to DTC, as registered owner, and notices to Beneficial Owners and procedures for partial redemption of Bonds will be governed by DTC's procedures. See APPENDIX A — "BOOK-ENTRY ONLY SYSTEM."

## SECURITY FOR THE BONDS

### Tax Allocation Financing

The Redevelopment Law generally 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 within a project area, which generally includes the State and any city, county, district or other public corporation for whose benefit taxes are levied (the "**Taxing Agencies**"), thereafter receive only 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 (the "**Tax Increment**") are allocated to a redevelopment agency and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. The Tax Increment, however, is subject to a number of claims and reductions which are prior to the pledge of the repayment of redevelopment agency indebtedness, including, among others, pass-through agreements with the Taxing Agencies, Statutory Pass-Through payments and administrative charges by the County, as further described herein. Redevelopment agencies themselves have no authority to levy property taxes and must look specifically to the allocation of taxes produced as above described.

The Agency has no power to levy and collect property taxes, and any property tax limitation, legislative measure, voter initiative or diversion of Tax Increment to Taxing Agencies may have the effect of reducing the amount of Tax Revenues that would otherwise be available to pay the Bonds and Parity Debt. Likewise, the reduction of assessed valuations of taxable property in the Project Area, any reduction in tax rates or tax collection rates and broadened property tax exemptions would have a similar effect. See "RISK FACTORS" and "STATUTORY LIMITATIONS ON TAX REVENUES" herein.

**The Bonds are not a debt of the City, the State, or any of its political subdivisions, and neither the City, the State, nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Agency. The Bonds do not constitute an indebtedness in contravention of any constitutional or statutory debt limitation or restriction.**

### Allocation of Taxes

As provided in the Redevelopment Plan for the Project Area first adopted by the Agency on June 26, 1973 (as amended, the "**Redevelopment Plan**"), and pursuant to Article 6 of Chapter 6 of the Redevelopment Law (commencing with Section 33670 of the California Health and Safety Code) and Section 16 of Article XVI of the Constitution of the State, taxes levied upon taxable property in the Project Area each year by or for the benefit of the Taxing Agencies, for fiscal years beginning after July 1 subsequent to the effective date of the ordinance adopting the Redevelopment Plan for the Project Area, or any amendment thereof, are divided as follows:

1. **To the Taxing Agencies:** That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of said Taxing Agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such Taxing Agency last equalized prior to the 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;

2. **To the Agency:** Except for taxes which are attributable to a tax rate levied by a Taxing Agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the Taxing Agency on or after January 1, 1989, which shall be allocated to and when collected shall be paid to the respective Taxing Agency, that portion of said levied taxes each year in excess of such amount (the "**Tax Increment**") shall be allocated to, and when collected, shall be paid to the Agency to pay principal of and interest on loans, moneys advanced to, or indebtedness (whether funded, refunded, assumed or otherwise) incurred by the Agency to finance or refinance, in whole or in part, the redevelopment project.

Tax revenues generated as set forth under (2) above and allocated to the Agency constitute Tax Increment Revenues. Tax Revenues which secure the Bonds are a portion of such Tax Increment Revenues. Tax Revenues are defined in the Indenture to mean all taxes annually allocated to the Agency with respect to the Project Area following the date of delivery of the Bonds within the Plan Limitations pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, including (a) 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 (b) as to such percentage of annual debt service on any issue of Parity Debt as shall be specified in the proceedings for such Parity Debt, all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund in any fiscal year pursuant to Section 33334.3 of the Redevelopment Law, but excluding (i) all amounts of such taxes which are payable to entities other than the Agency pursuant to the Tax Sharing Agreements or Tax Sharing Statutes to the extent that such Tax Sharing Agreements or Tax Sharing Statutes create a prior lien on such taxes and such entities other than the Agency have not subordinated their right to receive payments; (ii) except as set forth in (b) above, all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund in any fiscal year pursuant to Section 33334.3 of the Redevelopment Law; and (iii) amounts, if any, payable by the State to the Agency under and pursuant to the provisions of Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the Government Code of the State, and (iv) such taxes in any Bond Year (as defined in the Senior Bonds Indenture) to the extent subject to the prior senior pledge under the Senior Bonds Indenture with respect to the Senior Bonds.

The term "**Plan Limitations**" means the limitations contained or incorporated in the Redevelopment Plan on (a) the aggregate principal amount of indebtedness payable from Tax Revenues which may be outstanding at any time, (b) the aggregate amount of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, (c) the period of time for establishing or incurring indebtedness payable from Tax Revenues and (d) the period of time for receiving Tax Revenues for any purpose, established pursuant to Sections 33333.2, 33333.4 and 33333.6 of the Redevelopment Law and the Redevelopment Plan, as applicable. See the caption "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Plan Limitations." The Fiscal Consultant has projected Tax Revenues, estimated to be received by the Agency. See "THE GARDEN GROVE COMMUNITY DEVELOPMENT PROJECT," "TAX REVENUES AND ANNUAL DEBT SERVICE" and APPENDIX A — "FISCAL CONSULTANT'S REPORT."

Payments pursuant to the Tax Sharing Statutes generally consist of amounts required to be paid to certain taxing entities under Sections 33607.5 and 33607.7 of the Redevelopment Law as a consequence of Redevelopment Plan amendments which add territory after January 1, 1994 or extend certain of the Plan Limitations. The effect of the Tax Sharing Statutes is described further under the caption "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Tax Sharing Statutes."

Payments pursuant to the Tax Sharing Agreements are described further under "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Tax Sharing Agreements," and payments to the Agency's Low and Moderate Income Housing Fund are described further under "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Housing Set-Aside."

### **Pledge of Tax Revenues**

The Bonds are secured by a first and prior lien on Tax Revenues (subject only to the prior lien on Senior Tax Revenues of the Senior Bonds and any related obligations pursuant to the Senior Bonds Indenture [and the SERAF Housing Fund Obligation] and by a pledge of all of the moneys in the Special Fund and the Reserve Account. The Bonds are additionally secured by a pledge of all of the moneys in the Interest Account, the Principal Account, the Sinking Account and the Redemption Account, including all amounts derived from the investment of such moneys, subject to application in accordance with the Indenture.

Any Tax Revenues received in any Bond Year (i.e., December 2 to the following December 1) following such time during such Bond Year as the amounts on deposit in the Special Fund held by the Agency pursuant to the Indenture equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, Principal Account, Sinking Account, Redemption Account and Reserve Account, if necessary, in such Bond Year will be released as surplus from the pledge and lien under the Indenture and may be used for any lawful purpose of the Agency. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" contained herein.

The Agency has no power to levy and collect property taxes, and any property tax limitation, legislative measure, voter initiative or provisions of additional sources of income to taxing agencies having the effect of reducing the property tax rate could reduce the amount of Tax Revenues that would otherwise be available to pay the principal of, and interest on, the Bonds. Likewise, broadened property tax exemptions or changes in economic conditions within the Project Area could have a similar effect. See "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Educational Revenue Augmentation Fund; Proposed Budget," for discussion of certain pertinent legislative measures.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND, AS SUCH, ARE NOT A DEBT OF THE CITY, THE STATE, ANY OF THEIR POLITICAL SUBDIVISIONS AND NEITHER THE CITY, STATE, NOR ANY OF THEIR POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT DESCRIBED HEREIN IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT SHALL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN TAX REVENUES OF THE AGENCY AS SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. THE AGENCY HAS NO TAXING POWERS.

## **Reserve Account**

[see changes to Indenture]

To secure further the payment of principal of and interest on the Bonds, the Agency is required, upon delivery of the Bonds, to make the necessary deposit of funds to cause the balance in the Reserve Account to be equal to the Reserve Requirement. The "**Reserve Requirement**" means, as of the date of any calculation by the Agency, the lesser of (a) Maximum Annual Debt Service (as defined in the Indenture), (b) 125% of average Annual Debt Service on the Bonds and any Parity Debt (as defined in the Indenture), or (c) 10% of the original principal amount of the Bonds and any Parity Debt (less original issue discount if in excess of two percent (2%) of the stated redemption amount at maturity); provided, however, that the Reserve Requirement shall be computed without regard for the portions of other Parity Debt which remain as deposits in escrow funds, if any; and provided further with respect to any Parity Debt issued with a variable rate of interest, for purposes of calculating the Reserve Requirement, such Parity Debt shall be assumed to bear interest at (A) if interest on such variable rate Parity Debt is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer "Revenue Bond Index" (or comparable index if no longer published), or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities. If at any time for any reason the amount in the Reserve Account is less than an amount equal to the Reserve Requirement, the Reserve Account will be restored to the Reserve Requirement by transfers to the Reserve Account from the Special Fund with the first available Tax Revenues in the Special Fund.

The Indenture provides that the Agency may satisfy the Reserve Requirement, in whole or in part, by tendering to the Trustee: a Qualified Reserve Account Credit Instrument meeting the requirements of the Bond Insurer and the Indenture in substitution for cash in the Reserve Account, including an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Security of Bonds; Flow of Funds; Investments."

## **Issuance of Parity Debt**

The Agency may issue or incur debt payable from Tax Revenues on a parity with the Bonds subject to the following specific conditions precedent, all of which are made conditions precedent to the issuance and delivery of such Parity Debt issued under the Indenture:

(a) A Certificate of the Agency is delivered to the Trustee to the effect that on and after the delivery of the Parity Debt, the Agency shall be in compliance with all covenants set forth in the Indenture;

(b) (i) The Tax Revenues and Senior Tax Revenues for the then current Fiscal Year based on assessed valuation of property in the Project Area as evidenced in a written document from an appropriate official of the County and an assumed tax rate of one percent (1%), and (ii) the Tax Revenues and Senior Tax Revenues in each succeeding Fiscal Year during the term of the Parity Debt based on assessed value in the Project Area for the then current fiscal year as evidenced in a written document from an appropriate official of the County and an assumed tax rate of one percent (1%), in each case as projected by an Independent Redevelopment Consultant taking into account all Plan Limitations, Tax Sharing Agreements, Tax Sharing Statutes and other factors which would cause a reduction in Tax Revenues in any future Fiscal Year (and in every case without double-county), must be at least equal to \_\_\_\_% of the annual

amount of debt service coming due and payable in the corresponding Fiscal Year on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt and Senior Bond Annual Debt Service on all Senior Bonds. For purposes of this test, annual debt service on any Parity Debt the proceeds of which have been deposited into an escrow fund meeting the requirements of paragraph (d) below will be excluded. Parity Debt may be issued at a variable rate of interest only with the prior consent of the Bond Insurer, provided for purposes of this test such Parity Debt shall be assumed to bear interest at (A) if interest on such variable rate Parity Debt is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer "Revenue Bond Index" (or comparable index if no longer published), or (B) if interest is not so excludable [index to be inserted];

(c) The Supplemental Indenture or other document providing for the issuance of such Parity Debt must provide that: (i) interest on said Parity Debt is payable on June 1 and December 1 in each year of the term of such Parity Debt, except that interest during the first twelve month period may be payable on any June 1 or December 1; (ii) the principal of such Parity Debt is payable on June 1 or December 1 in any year in which principal is payable; and (iii) an amount is deposited in the Reserve Account from the proceeds of the sale of such Parity Debt in an amount sufficient to increase the Reserve Account to the Reserve Requirement including such Parity Debt;

(d) The proceeds of such Parity Debt may be deposited into an escrow fund from which amounts may be released to the Agency to the extent the Tax Revenues for the most recent Fiscal Year (as evidenced in the written records of the County) and Tax Revenues in each succeeding Fiscal Year during the term of the Parity Debt based on assessed value in the Project Area for the then current fiscal year as evidenced in a written document from an appropriate official of the County, in each case as projected by an Independent Redevelopment Consultant taking into account all Plan Limitations, Tax Sharing Agreements, Tax Sharing Statutes and other factors which would cause a reduction in Tax Revenues in any future Fiscal Year, at least equals \_\_\_% of the annual amount of debt service coming due and payable in the corresponding Fiscal Year on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt.

(e) A Certificate of the Agency is delivered to the Trustee to the effect that the issuance of such Parity Debt shall not cause the Agency to exceed any applicable Plan Limitations; and

(f) The Agency shall deliver to the Trustee a written certificate of the Agency (which may be based in part on an opinion of Bond Counsel) certifying that the conditions precedent to the issuance of such Parity Debt set forth in the Indenture have been satisfied.

### **Issuance of Super-Subordinate Debt**

The Agency may incur Super-subordinate Debt in such principal amount as shall be determined by the Agency provided that prior to the issuance or incurrence of such Super-subordinate Debt, a Certificate of the Agency is delivered to the Trustee to the effect that the issuance of such Super-subordinate Debt shall not cause the Agency to exceed any applicable Plan Limitations.

## **Issuance of Senior Bonds**

The Agency has covenanted in the Indenture not to issue any additional Senior Bonds except for purposes of refunding, in whole or in part, the 2003 Bonds (as defined in the Senior Bonds Indenture), or any refunding of all or any portion thereof, and only so long as such refunding results in debt service savings for the refunded Senior Bonds in each fiscal year, and the maturity of the refunding bonds is not later than the maturity of the Senior Bonds to be refunded, as evidenced by a Certificate of the Agency.

See "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Plan Limitations" and APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" contained herein.

## **THE AUTHORITY**

The Garden Grove Public Financing Authority (the "Authority") was created by a Joint Exercise of Powers Agreement, dated as of June 15, 1993, by and between the City and the Agency. Such agreement was entered into pursuant to the provisions of Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the "JPA Law"). The Authority was created for the purpose of assisting the financing or refinancing of certain public capital facilities within the City. Under the JPA Law, the Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale.

The Authority is governed by a five-member Board of Directors (the "Board") which consists of the members of the City Council of the City. The Mayor acts as the Chairman of the Authority, the City Manager as its Executive Director, the City Clerk as its Secretary and the Finance Director of the City as the Treasurer of the Authority.

[PLACEHOLDER FOR PROJECT AREA MAP]

## THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT

### Members

The Agency was established on November 20, 1970 with the adoption of Ordinance No. 1144 pursuant to the Redevelopment Law. Members of the City Council serve as board members to the Agency. The Mayor is elected at large for a 2-year term and City Council members are elected at large for 4-year overlapping terms. The board members of the Agency are listed below along with the years their terms expire.

<u>Name</u>	<u>City and Agency Title</u>	<u>Term Expires</u>
William Dalton	Mayor/Chairman	November 2012
Steve Jones	Mayor <i>Pro Tem</i> /Vice Chairman	November 2012
Bruce A. Broadwater	Councilmember/Member	November 2014
Kris Beard	Councilmember/Member	November 2014
Dina Nguyen	Councilmember/Member	November 2014

### Agency Powers and Duties

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

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

Agency staff services are provided by City staff. Such support includes project management, real estate acquisition and disposition, relocation, engineering and planning, legal, financing and fiscal services. Brief biographies of the City Manager and the Finance Director of the City follow.

The City Manager also serves as the Executive Director of the Agency. The City Manager is Matthew Fertal, who has served as the City Manager since \_\_\_\_\_. Mr. Fertal previously served as \_\_\_\_\_. Prior employment included \_\_\_\_\_ and \_\_\_\_\_. Mr. Fertal holds a \_\_\_\_\_ degree in \_\_\_\_\_ from \_\_\_\_\_, a \_\_\_\_\_ degree in \_\_\_\_\_ from \_\_\_\_\_.

Kingsley C. Okereke has served as Finance Director of the City since \_\_\_\_\_. Mr. Okereke has \_\_\_\_\_ years of public sector experience as Finance Director and \_\_\_\_\_ for \_\_\_\_\_. Mr. Okereke holds \_\_\_\_\_ degree in \_\_\_\_\_ from \_\_\_\_\_, a \_\_\_\_\_ degree in \_\_\_\_\_ from \_\_\_\_\_.

## **Factors Affecting Redevelopment Agencies Generally**

Other features of California Redevelopment Law which bear on redevelopment agencies include general provisions which require public agencies to award contracts for construction only after competitive bidding. California statutes also provide for offenses punishable as felonies which involve direct or indirect interest of a public official in a contract made by such official in his official capacity. In addition, the Community Redevelopment Law prohibits any Agency or City official or employee who, in the course of his duties, is required to participate in the formulation or approval of plans or policies, from acquiring any interest in property in the Project Area.

Under a State initiative enacted in 1974, public officials are required to make extensive disclosures regarding their financial interests by filing such disclosures as public records. As of the date of this Official Statement, the members of the City Council and the Agency, and other City and Agency officials have made the required filings. California also has strict laws regarding public meetings (known as the Ralph M. Brown Act) which makes all Agency and City meetings open to the public, with certain exceptions.

Redevelopment agencies are required to file a statement of indebtedness with the County Auditor-Controller not later than the first day of October, stating the amount of indebtedness of the Agency as of the close of its fiscal year, June 30. The Agency has made such a filing for fiscal year 2009-10.

## **The Project Area**

[Set up amendments in a table]

The Project Area consists of approximately 1,975 acres and consists of commercial, industrial, housing and public land uses including the City's civic center.

The first redevelopment project area was created with the adoption of the Redevelopment Plan for Community Project No. 1 in June 1973. One year later in 1974, following the renaming of the redevelopment agency to the Garden Grove Agency for Community Development, the Redevelopment Plan was amended to include within the project area, twelve non-contiguous parts located throughout the City representing the community's need for redevelopment at that time.

A second redevelopment project area was designed in 1975, and in December of that year, the Redevelopment Plan for the Trask Avenue Project was adopted by the City Council. The Trask Avenue Project included former State excess property located along the Garden Grove Freeway between Brookhurst Street and Magnolia Street.

On November 22, 1976, the City Council approved and adopted a second amendment to the Redevelopment Plan for the Community Project. This amendment included the addition of approximately 100 acres to the Community Center portion of the project area, added several new areas throughout the community, and connected, by way of public streets, all the previously non-contiguous portion of the project area. A total of 78 acres of land was also amended out of the Community Project.



A third redevelopment project area was formally adopted in March 1977, with the approval and adoption of the Redevelopment Plan for the Brookhurst/Chapman Project. This project area is located on the north side of Chapman Avenue between Brookhurst Street and Gilbert Street, and includes the area previously known as Orange County Plaza, one of the first shopping centers in Orange County.

A fourth redevelopment project area was adopted on January 23, 1978, when the City Council adopted the Brookhurst/Katella Project. The project area, containing approximately 16 acres of land, is located at the southwest corner of Brookhurst/Katella area is partially improved with retail, commercial and office professional uses.

On October 9, 1979 and on June 9, 1981, the City Council approved and adopted amendments to the Redevelopment Plan for the Community Project to be known as the Garden Grove Community Project. These amendments combined four project areas: Community Center; Trask Avenue; Brookhurst/Chapman and Brookhurst/Katella into one project as well as incorporating various commercial centers and street frontage properties.

In 1987, the City amended the Redevelopment Plan for the Garden Grove Community Project by including certain provisions required under Section 33333.4 of the Redevelopment Law.

In 1988, the City Council approved and adopted an amendment to the Redevelopment Plan deleting the Newhope Condominium project and on July 14, 1992 the City Council approved an ordinance adding 574 acres to the Project Area, consolidating the four (4) pre-existing tax increment revenue limits and increasing the consolidated limit, extending the Agency's eminent domain time frame, extending the life of the Redevelopment Plan, extending the time frame in which the Agency may incur debt in the Project Area, increasing the limit on bonded debt that the Agency may incur at one time and updating and expanding the list of public improvements the Agency may implement to benefit the Project Area.

In 1992, the City approved Ordinance No. 2232, under which the Redevelopment Plan was amended to add the 1992 Area to the Project Area, to extend the term of the Redevelopment Plan and to increase the financial limitations for the Project Area. In 1994, under Ordinance No. 2304 of the City, the Agency amended certain time limits on the incurring of debt and the receipt of tax increment revenues. In 1998, under City Ordinance No. 2455, the Agency added the 1998 Area to the redevelopment project area for the Garden Grove Community Project. In 2002, by City Ordinance No. 2576, the Agency added the 2002 Area to the redevelopment project area for the Garden Grove Community Project.

### **Plan Limitations**

In 1976, the Legislature enacted AB 3674 (Statutes of 1976, Chapter 1337) which added Section 33333.2, 33334.1 and 33354.6 to the Redevelopment Law. Section 33333.2 requires redevelopment plans adopted on or after October 1, 1976, to contain a time limit on the establishing of loans, advances and indebtedness to finance, in whole or in part, the redevelopment project and a time limit not to exceed twelve years for the commencement of eminent domain proceedings to acquire property within the project area.

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

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

The Redevelopment Plan provides that: (i) with respect to the Project Area excepting the 1998 Area and the 2002 Area, the Agency shall not receive tax increment revenues in excess of \$2,000,000,000; and (ii) the total amount of bonded indebtedness incurred by the Agency, exclusive of other Agency contractual obligations and other forms of indebtedness of the Agency, payable in whole or in part from tax increment revenues from the Project Area which can be outstanding at any one time cannot exceed \$475,000,000. The Redevelopment Plan also contains a provision that no loan, advance or indebtedness to finance, in whole or in part, the Project Area shall be established after a date forty (40) years from the effective date of the ordinance approving the 2002 Amendment (July 14, 2032). Under the Redevelopment Plan, the last date upon which the Agency may receive tax increment varies among the component areas comprising the Project Area as set forth in APPENDIX A — "FISCAL CONSULTANT'S REPORT." Significant portions of the Project Area will expire before the Bonds mature. Components of the Project Area expire in each of the years 2023 through 2029 and thereafter, but the most financially significant components expire in 2024 and 2029. For example, in 2010-11 the 1974 Amendment Area expiring in 2027 is expected to account for approximately 33.32% of all tax increment revenues received during such fiscal year by the Agency and the 1979 Amendment Area expiring in 2032 is expected to account for approximately 42.96% of all tax increment revenues received during such fiscal year by the Agency. See "THE GARDEN GROVE COMMUNITY DEVELOPMENT PROJECT — Historical Valuations and Tax Increment Revenues, Table 3."

**Assembly Bill 1290 and Time Limits for Agency Existence and Powers.** In 1993, Assembly Bill 1290 ("AB 1290") was passed by the California Legislature and signed into law by the Governor amending various provisions of the Redevelopment Law. Among other amendments to the Redevelopment Law, AB 1290 imposed time limits on existing redevelopment plans for the incurrence of indebtedness, the duration of the plan and the collection of the tax increment revenues. On October 18, 1994, the City Council passed Ordinance No. 2304 with respect to the Project Area which brought the Redevelopment Plans for the component project areas into full compliance with AB 1290. The table below shows the limits with respect to each component area:

[insert table with time limits for all component areas]

**Senate Bill 211.** The California Legislature enacted SB 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 a 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.

Pursuant to the authorization contained in SB 211, the City Council on July 9, 2002 adopted Ordinance No. 2576 deleting the limits on the Agency's authority to incur loans, advances and indebtedness for all component project areas adopted prior to January 1, 1994. The Agency currently has no expectations of undertaking proceedings pursuant to SB211 to extend the effectiveness of the redevelopment plan or to extend the time to receive tax increment revenues and to pay indebtedness with respect to the Project Area.

**Senate Bill 1045.** Senate Bill 1045 adopted by the Legislature in connection with the State's budget for fiscal year 2003-04 provided that the termination date of redevelopment plans may be extended by one year by reason of its Education Revenue Augmentation Fund (the "ERAF") payment that redevelopment agencies were obligated to make under provisions of the 2003-04 budget legislation. By Ordinance No. 2764 adopted on January 26, 2010, the City Council amended the Redevelopment Plan, in accordance with the Law as amended by Senate Bill 1045, to extend by one year the termination date of the Redevelopment Plan and by extension the last date to repay indebtedness on certain components of the Project Area.

**Senate Bill 1096.** Legislation adopted by Senate Bill 1096 in connection with the State's 2004-05 budget provided that the termination dates and last dates to repay indebtedness of redevelopment plans with less than 20 years remaining may be extended by one year for each of the two ERAF payments that redevelopment agencies were obligated to make under other provisions of the 2004-05 budget legislation.

Pursuant to Senate Bill 1096, the Agency may extend the term of effectiveness for certain redevelopment plans and the periods within which the Agency can repay indebtedness by up to two additional years. This two-year extension of the time limits is predicated upon the payment by the Agency of its ERAF obligations for 2005 and 2006. The ERAF obligations for 2005 and for 2006 have been paid in a timely manner. For project areas that have less than 10 years of plan effectiveness remaining after June 30, 2005, a two-year extension is authorized. For project areas that have more than 10 years and less than 20 years of plan effectiveness remaining after June 30, 2005, a two-year extension is authorized if the City Council can make certain findings. For those project areas with more than 20 years of plan effectiveness remaining after June 30, 2005, no extension of time is authorized. The Original Plan and all of the amendments except the 1998 Amendment and the Added Territory were so extended by two years by adoption of Ordinance Nos. 2765 and 2766. The redevelopment plan for the 1998 Amendment and the Added Territory could not be extended under Senate Bill 1096. These extensions also extended the limit on receipt of tax increment revenues for repayment of indebtedness by one year and both extensions are reflected in the table below.

The redevelopment plan limits currently governing the component areas of the Project

Area are summarized in Table 1 below:

**Table 1**  
**Garden Grove Agency for Community Development**  
**Redevelopment Plan Limits**

Component Area	Termination of Project Activities	Last Date to Repay Debt with Tax Revenue	Last Date to Incur Indebtedness	Tax Increment Limit	Limit on Outstanding Bonded Debt
Original Project	June 26, 2016	June 26, 2026	Eliminated		
1974 Amendment	July 9, 2017	July 9, 2027	Eliminated		
Trask	November 25, 2018	November 25, 2028	Eliminated		
1976 Amendment	November 29, 2019	November 29, 2029	Eliminated		
Brookhurst/Chapman	March 21, 2020	March 21, 2030	Eliminated		
Brookhurst/Katella	February 21, 2021	February 21, 2031	Eliminated		
1979 Amendment	October 16, 2022	October 16, 2032	Eliminated		
1981 Amendment	June 9, 2024	June 9, 2034	Eliminated		
1992 Amendment	July 14, 2033	July 14, 2043	Eliminated		
<b>Combined Limits</b>				<b>\$2 Billion</b>	
1998 Amendment	December 8, 2029	December 8, 2044	December 8, 2018	None	
Added Territory	July 9, 2033	July 9, 2048	July 9, 2022	None	
<b>Combined Limits</b>					<b>\$475 Million</b>

According to the records of the Auditor-Controller, within the Project Area, excluding the 1998 Amendment and the Added Territory, which have no tax increment limits, the Agency has received a total of \$246,835,858 in cumulative tax increment revenue through June 1, 2011. Based on the assumptions used for the projection, the portions of the Project Area that are subject to a limitation on receipt of tax increment revenue will not approach the amount of the tax increment limit during the lifetime of the Project Area. If, however, there is unexpectedly substantial new development or increases in assessed value due to resale activity that exceeds annual growth of 7% per year, the limit could be reached prior to the expiration of the Agency's ability to repay indebtedness and Agency revenues may be affected.

The Agency is of the opinion that the limitations described herein under "Plan Limitations" will not impair its ability in the future to repay any obligation or indebtedness, including the Bonds, incurred by the Agency in connection with the development of the Project Area in accordance with the Redevelopment Plan. The projection of Tax Revenues herein and in APPENDIX A — "FISCAL CONSULTANT'S REPORT" take these expiration dates into account.

The Agency has covenanted under the Indenture to take no action, including but not limited to, the issuance of its bonds, notes or other obligations, which causes or which, with the passage of time would cause, any of the Plan Limitations to be exceeded or violated. The Agency has covenanted in the Indenture to manage its fiscal affairs in a manner which ensures that it will have sufficient Tax Revenues available under the Plan Limitations in the amounts and at the times required to enable the Agency to pay the principal of and interest and premium (if any) on the Bonds when due. Without limiting the foregoing, the Agency has agreed in the Indenture that it shall calculate annually not later than December 31 each year, the aggregate amount of Tax Increment Revenues which it remains entitled to receive under the Plan Limitations for the Project Area. In the event that the aggregate amount of Tax Increment Revenues which the Agency is permitted to receive under the Plan Limitations for the Project Area, plus the amount then held on deposit in any fund or account which is set aside by the Agency to make its debt payments with respect to the Project Area and the earnings which are

reasonably expected to accrue thereon, are reasonably estimated at any time to be less than one hundred and ten percent (110%) of the aggregate amount of annual debt payments remaining to be made with respect to the Project Area, the Agency shall either (a) deposit with the Trustee an amount of Tax Revenues sufficient to redeem Bonds in such aggregate principal amount as shall be required to cause the Agency to meet such requirements, or (b) set aside with the Trustee or into a dedicated fund or account to be held by the Agency an amount of Tax Revenues which, together with earnings to be derived from the investment thereof, will be sufficient to enable the Agency to meet such requirements, or (c) decline to accept Tax Increment Revenues from the County in an amount sufficient to enable the Agency to meet such requirements.

### **Housing Set-Aside**

Chapter 1337, Statutes of 1976, added Sections 33334.2 and 33334.3 to the Redevelopment Law requiring redevelopment agencies to set aside at least 20 percent of all tax increment revenues allocated and paid to redevelopment agencies from redevelopment project areas adopted after December 31, 1976 in the Agency's Low and Moderate Income Housing Fund to be expended for authorized low and moderate income housing purposes (the "Housing Set-Aside Payments"). None of debt service on the Bonds is chargeable to such Housing Set-Aside Payments and Tax Revenues do not include any allocation of payments to amounts otherwise chargeable to the Low and Moderate Income Housing Fund. See APPENDIX A — "FISCAL CONSULTANT'S REPORT." Parity Debt may be issued with a claim against Housing Set-Aside Payments to the extent set forth in the proceedings for such Parity Debt. See "SECURITY FOR THE BONDS — Allocation of Taxes; Tax Revenues."

The provisions of the Redevelopment Law regarding the funding of low and moderate income housing funds have been frequently amended since their original adoption. In addition, the interpretations of these laws by the California Attorney General and redevelopment agency counsels throughout the State have at times been subject to variation and change.

### **Tax Sharing Agreements**

Pursuant to Section 33401 of the Redevelopment Law as in effect at the time of adoption of the Original Project Area and the amendments thereto, a redevelopment agency was authorized to enter into an agreement to pay tax increment revenues to any taxing agency that has territory located within a redevelopment project area in an amount which in the agency's determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provide for a pass-through of tax increment revenue directly to the affected taxing agency, and are called "Tax Sharing Agreements" herein.

So long as any Bonds are Outstanding, the Agency covenants that it will not enter into any agreement with the County or any other governmental or private entity, which would have the effect of reducing the amount of Tax Revenues otherwise available to the Agency for payment of the Bonds, unless such agreement or amendment constitutes Parity Debt or Subordinate Debt, provided, such limitation shall not apply to amendments to the Redevelopment Plan which result in payments pursuant to the Tax Sharing Statutes, where such amendment otherwise complies with the Indenture.

The Agency has entered into no Tax Sharing Agreements in connection with any of the component project areas except for the 1992 Amendment. Within the 1992 Amendment, various Tax Sharing Agreements require payment by the Agency of significant portions of the taxes

which would otherwise be allocated and paid to the Agency as described above are required to be paid to certain entities. Amounts paid under the Tax Sharing Agreements which are senior in right of payment are not Tax Revenues and, therefore, are not pledged to secure the Bonds. Table 1 contained in APPENDIX A — "FISCAL CONSULTANT'S REPORT" herein shows the amount of projected Tax Revenues net of amounts payable under the Tax Sharing Agreements, and the Table set forth herein under "TAX REVENUES AND ANNUAL DEBT SERVICE — Projected Tax Revenues and Debt Service Coverage" shows the relationship between such net Tax Revenues and debt service requirements of the Bonds.

The 1992 Tax Sharing Agreements are as follows:

1. A capital facilities agreement by and between the Garden Grove Unified School District (the "GGUS District") and the Agency, dated as of August 25, 1992 (the "Garden Grove USD Agreement"). The Garden Grove USD Agreement provides for payments to the GGUS District, commencing in fiscal year 1997-98, equal to 50% of the District's share of certain tax increment revenues, as defined, generated by the Project Area above 1991-92 levels. Tax increment revenues, as defined in that Agreement, equal total tax increment revenues generated by the entire amended Project based on the 1.0% tax rate, less: 1) tax increment revenues generated in the 1991-92 fiscal year; 2) amounts required to be set-aside in the low- and moderate-income housing fund; and 3) payments, or set-asides, pursuant to state legislative requirements. The GGUS District's share of property taxes generated by the Project currently equals approximately 41.3%, but is subject to legislative changes. For fiscal year 2010-11, the amount payable under this Agreement is estimated by the Fiscal Consultant to be \$2,009,412. [Discuss current dispute over amounts payable]

Included in the payment above and in future payments, the Garden Grove USD Agreement provides that the GGUS District is also due the following amounts:

<b><i>Fiscal Year</i></b>		<b><i>Amount Due the District</i></b>
<b><i>From</i></b>	<b><i>To</i></b>	
1992-93	1994-95	\$ 500,000
1995-96	2006-07	1,000,000
2007-08	2031-32	10% of GGUS District's Share of Current Plan Tax Increment*

\* Current Plan Tax Increment is defined to include all tax increment revenue generated by the existing Project Area in the 1991-92 fiscal year.

Total payments to the GGUS District under the GGUSD Agreement cannot exceed the amount of tax increment revenue the GGUS District would have received from the entire Project Area, as amended, if all tax increment revenues had been allocated to the GGUS District without regard to the diversion of taxes required by Section 33670 of the Redevelopment Law. While the GGUSD Agreement provides that payments to the GGUS District are subordinate to the refunding of certain obligations existing as of August 15, 1992, the payments projected to be made to the GGUS District in the Fiscal Consultant's Report are assumed to be made without regard to any such subordination. See APPENDIX A — "FISCAL CONSULTANT'S REPORT";

2. A tax sharing agreement dated as of September 29, 1992 by and between the County of Orange (the "County"), the County of Orange Harbors, Beaches and Parks Service Area No. 26, a public agency ("HBP District"), the County of Orange Flood Control District, a public agency (the "Flood District"), and the County of Orange Public Library, a public agency

(the "Library District") (which entities collectively constitute the "County Entities" and which Agreement is referred to herein as the "County Entities Agreement"). Commencing with the 1992-93 fiscal year, the Agency is required to pay and pledges to the County Entities approximately 10.3 percent of tax increment revenues generated by the Project above 1991-92 levels. Specifically, the Agreement provides that the County Entities are annually due payments equal to 47 percent of the County Entities' share of 1.0 percent non-housing tax increment revenues (i.e., 80 percent) generated by the entire Project above 1991-92 levels. (In the event a percentage of revenue larger than 20 percent is required to be set-aside for housing purposes at a future time, the Agreement provides that the County Entities' share is to be reduced by one-half of the percentage increase). The Fiscal Consultant estimates payments to the County for fiscal year 2010-11 in the amount of \$202,789;

3. A tax sharing agreement by and between the County Sanitation District No. 2 (the "County Sanitation District"), also acting on behalf of County Sanitation District No. 3, and the Agency, dated November 24, 1992 (the "Sanitation District No. 2 Agreement"). See discussion below under "—Senior Lien Agreements";

4. A tax sharing agreement by and between the Garden Grove Sanitary District (the "Sanitary District") and the Agency, dated November 10, 1992 (the "Sanitary District Agreement"). See discussion below under "—Senior Lien Agreements";

5. A tax sharing agreement by and between the Huntington Beach Union High School District (the "Huntington Beach District") and the Agency, dated February 9, 1993 (the "Huntington Beach Agreement"). See discussion below under "—Senior Lien Agreements";

6. A tax sharing agreement by and between the Orange County Vector Control District (the "Vector District") and the Agency dated as of September 14, 1993 (the "Vector Agreement"). See discussion below under "—1992 Agreements"; [update/confirm]

7. A tax sharing agreement by and between the Westminster School District (the "Westminster District") and the Agency, dated November 10, 1992 (the "Westminster Agreement"). See discussion below under "—Senior Lien Agreements";

8. A capital facilities agreement by and between the Rancho Santiago Community College District (the "Rancho District") and the Agency, dated as of August 25, 1992 (the "Rancho Agreement"). See discussion below under "—Senior Lien Agreements";

9. A tax sharing agreement by and between the Orange County Water District (the "Water District") and the Agency, dated as of June 3, 1992 (the "Water District Agreement"). See discussion below under "—Tax Sharing Agreements Subordinate to All Bonded Indebtedness";

10. A tax sharing agreement by and between the Orange Unified School District (the "Orange District") and the Agency, dated April 13, 1993 (the "OUSD Agreement"). See discussion below under "—Tax Sharing Agreements Subordinate to All Bonded Indebtedness";

11. A tax sharing agreement by and between the Orange County Superintendent of Schools (the "Superintendent") and the Agency, dated June 8, 1993 (the "Superintendent Agreement"). See discussion below under "—Tax Sharing Agreements Subordinate to All Bonded Indebtedness";

12. A tax sharing agreement by and between the North Orange County Community College District (the "North OCC District") and the Agency, dated June 8, 1993 (the "North OCCD Agreement"). See discussion below under "—Tax Sharing Agreements Subordinate to All Bonded Indebtedness"; and

13. A tax sharing agreement by and between the Coast Community College District (the "Coast District") and the Agency dated as of June 16, 1993 (the "Coast Agreement"). See discussion below under "—Tax Sharing Agreements Subordinate to All Bonded Indebtedness."

The Fiscal Consultant reports the following entities adopted resolutions pursuant to former Section 33676(a) of the Health and Safety Code electing to receive their share of inflationary increases in assessed valuation ("Section 33676 Resolutions"): (a) Anaheim Union High School District; and (b) Anaheim Elementary School District. However, the land area these resolutions relate to do not generate Tax Increment Revenues and no payments have been made by the County pursuant to them.

### **Senior Lien Agreements**

Of the Tax Sharing Agreements listed above, the Garden Grove USD Agreements, the County Entities Agreement and the Anaheim Union High School District and Anaheim Elementary School District Section 33676 Resolutions are treated as senior lien obligations. The Fiscal Consultant estimates the amount payable by the Agency for fiscal year 2010-11 at \$2,009,412 for the Garden Grove USD Agreement and \$202,789 for the County Entities Agreement.

In addition, the agreements listed below are treated as having a claim on Tax Revenues which is senior in right of payment to the Bonds. Amounts payable under these agreements are excluded from the definition of Tax Revenues.

Sanitation District No. 2 Agreement. Under the Sanitation District No. 2 Agreement, the Agency is to annually pay the County Sanitation District an amount equal to 100 percent of the County Sanitation District's share of defined tax increment revenues generated by the 1992 Area. The tax increment revenue to be utilized for the purpose of computing the amount due the County Sanitation District is the tax increment revenue generated by the 1992 Area based on the 1.0 percent tax rate, less amounts required to be deposited into the low and moderate income housing fund, and less other potential set-asides or payments pursuant to the state legislative requirements. The County Sanitation District's share of 1.0 percent property taxes from the 1992 Area is approximately 3.1 percent. For fiscal year 2010-11, the Fiscal Consultant estimates the amount payable under this Agreement at \$130,285.

Sanitary District Agreement. The provisions of the Sanitary District Agreement are identical to those of the Sanitary District No. 2 Agreement. Specifically, payments are due to the Sanitary District in an amount equal to 100 percent of the Sanitary District's share of defined tax increment revenue from the 1992 Area. The Sanitary District's share of 1.0 percent taxes in the 1992 Area is approximately 1.88 percent. Defined tax increment revenues exclude any override taxes, amounts required to be deposited into the low and moderate income housing fund and any state-required payments. For fiscal year 2010-11, the Fiscal Consultant estimates the amount payable under this Agreement at \$78,978.



Huntington Beach Agreement. The Huntington Beach Agreement provides that the Agency will pay to the Huntington Beach District an amount equal to: 1) "Two Percent Revenue" which, as defined, equals the amount the Huntington Beach District would have received from the County for the 1992 Area had it filed a resolution pursuant to Section 33676 of the Redevelopment Law; and 2) 30 percent of its share of defined tax increment revenues from the 1992 Area. Tax increment revenues are defined to include tax increment revenues from the 1992 Area based on the 1.0 percent tax rate, less required deposits into the low- and moderate-income housing fund and any state-required payments. The Huntington Beach District's share of 1.0 percent taxes is approximately 1.009 percent. For fiscal year 2010-11, the Fiscal Consultant estimates the amount payable under this Agreement at \$36,987.

Vector Agreement. The Vector Agreement provides for the payment to the Vector District of 100 percent of the Vector District's share of 1.0 percent taxes from the 1992 Area, less amounts required to be deposited into the low and moderate income fund and less any set-asides or payments pursuant to state legislative requirements. The Vector Agreement also provides that the Agency will pay for certain off-site improvements of a future Vector District expansion, but in no event shall such expenditure be greater than the Vector District's share. The Vector District's share of 1.0 percent taxes from the 1992 Area is approximately 0.18 percent. For fiscal year 2010-11, the Fiscal Consultant estimates the amount payable under this Agreement at \$4,251. [status of improvements? costs?] [discuss]

Westminster Agreement. The Westminster Agreement provides for the creation of a special fund to pay for a portion of capital facilities of the Westminster District. Tax increment deposited to the special fund is based on 50 percent of the Westminster District's share (1.22 percent) of tax increment revenue generated by the 1992 Area, less a proportionate share of the Agency's 20 percent low and moderate income housing set aside requirement. For fiscal year 2010-11, the Fiscal Consultant estimates the amount payable under this Agreement at \$25,459.

Rancho Agreement. The Rancho Agreement provides that the Rancho District is due certain taxes generated by the 1992 Area only. Specifically, the Rancho District is to annually receive an amount equal to the greater of: 1) the sum of 30% of the Rancho District's Share of tax increment revenues from the 1992 Area (less housing set-asides and state legislative requirements) and tax increment revenues from the 1992 Area resulting from increases in assessed value of up to two percent as calculated pursuant to subdivision (f) of Section 110.1 of the Revenue and Taxation Code ("Two Percent Revenue"); 2) \$125,000 adjusted annually for inflation commencing in 1993-94; or 3) \$150,000, adjusted annually for inflation. The Rancho District is only eligible for the \$150,000 payment in the event the Rancho District has established and is operating a general educational facility within the Agency's jurisdiction, or at the Agency's discretion in 1997-98. Notwithstanding the provisions outlined above, however, the Agreement specifies that in no event shall annual payments to the Rancho District exceed the amount of tax increment revenue the Rancho District would have received from the 1992 Area if the tax increment revenues from the 1992 Area were allocated to the Rancho District without regard to the diversion of taxes required by Section 33670 of the Redevelopment Law. For fiscal year 2010-11, the Fiscal Consultant estimates the amount payable under this Agreement at \$178,095. [The Agency and the Rancho District entered into a lease agreement wherein the Rancho District agreed to forego payment under the Tax Sharing Agreement in return for not paying rent even after the lease terminates.]

Payments pursuant to the senior Tax Sharing Agreements reduce Tax Revenues available for the Bonds and descriptions of Tax Revenues herein and in APPENDIX A — "FISCAL CONSULTANT'S REPORT" are net of such amounts.

Certain housing obligations of the Agency create senior liens on Agency Housing Funds, which are not a part of Tax Revenues available to pay the Bonds, but may comprise a portion of Tax Revenues to the extent Parity Debt is issued in the future. See "—Agreements with Private Entities and the Orange County Transportation Authority—Affordable Housing Agreements" below.

### **Tax Sharing Agreements Subordinate to All Bonded Indebtedness**

The agreements listed below under this heading are treated as having a claim on Tax Revenues which is subordinate in right of payment to the Bonds.

Water District Agreement. The Water District Agreement provides that the Water District is to receive annual payments equal to 100 percent of its share of all non-housing tax increment revenue (the basic 1.0 percent tax levy plus applicable override taxes) generated by the 1992 Area. Amounts required to be deposited into the low and moderate income housing fund from revenues generated by the 1992 Area are to be excluded from tax revenues utilized in the computation of amounts due the Water District. The Water District's share of 1.0 percent taxes from the 1992 Area is approximately 0.78 percent; the Water District's 1992-93 tax override rate is -0-.

OUSD Agreement. The OUSD Agreement provides for similar terms and conditions as the Huntington Beach Agreement. Specifically, the Orange District is to receive: 1) its share of Two Percent Revenue; and 2) 30 percent of its share of tax increment revenue net of any required housing set-aside deposit. The Orange District's share of 1.0 percent of tax increment revenues from the relevant portion of the 1992 Area is approximately 0.296 percent.

Superintendent Agreement. The Superintendent Agreement provides for the Superintendent to receive from the 1992 Area an amount equal to: 1) the Superintendent's share of Two Percent Revenue; and 2) 30 percent of its share of defined tax increment revenues. Defined tax increment revenues include 1.0 percent tax increment revenue from the 1992 Area, less amounts required to be set-aside for low- and moderate-income housing purposes and less payments or set-asides pursuant to state legislative requirements. For the purpose of this Agreement, defined tax increment revenues exclude Two Percent Revenue. The Superintendent's share of total tax increment revenue in the 1992 Area is currently 1.58 percent.

North OCCD Agreement. The provisions of the North OCCD Agreement are identical to those of the Superintendent Agreement. The North OCC District's share of taxes generated by the 1992 Area is currently 1.03 percent.

Coast Agreement. The provisions of the Coast Agreement are identical to those of the Superintendent Agreement. The Coast District's share of property taxes generated by the 1992 Area is approximately 5.3 percent. [confirm whether Agency and Coast District have entered into a lease agreement similar to the Rancho College District agreement]

The Agency expects to have sufficient Tax Increment Revenues to make all required payments under the subordinated Tax Sharing Agreements, taking into account payment of Bonds debt service and other obligations.

## **Tax Sharing Statutes**

[Expand to cover later amendments]

The Agency amended the Redevelopment Plan in each of 1998 and 2002. As part of those amendments, the Agency added the 1998 Area and the 2002 Area, respectively, to the Project Area and made certain other amendments. See "THE GARDEN GROVE COMMUNITY DEVELOPMENT PROJECT — Redevelopment Plan."

As a result of the addition of the 1998 Area and the 2002 Area by the 1998 Amendment and the 2002 Amendment, the Agency is required to make payments under the Tax Sharing Statutes. Payments under the 1998 Amendment commenced in 1999-2000. Payments under the 2002 Amendment commenced in 2004-05. Payments pursuant to the Tax Sharing Statutes are inapplicable if the Agency and an affected taxing entity have a tax sharing agreement which governs tax sharing in connection with an amendment. Payments pursuant to the Tax Sharing Statutes for the 1995 Area and the 2002 Area are senior in right of payment to the Bonds, and are excluded from Tax Revenues.

The Redevelopment Law prescribes the making of certain payments to taxing agencies in connection with particular redevelopment plan amendments. The pertinent provisions ("Tax Sharing Statutes") set forth a requirement for payments of tax increment revenues to be made in prescribed amounts to taxing entities in the event certain amendments are made to a project area, such as amendments to a redevelopment plan to add territory. Similar provisions apply to amendments which extend the time during which a redevelopment agency may incur debt with respect to a project area, amendments to increase the number of dollars which may be allocated to a redevelopment agency, or amendments which extend the time during which a redevelopment plan is effective where the redevelopment plan being amended contains the provisions required by subdivision (b) of Section 33670 of the Redevelopment Law. Payments pursuant to the Tax Sharing Statutes are inapplicable if the Agency and an affected taxing entity have a tax sharing agreement which governs tax sharing in connection with an amendment. In general, the amounts to be paid pursuant to Tax Sharing Statutes are as follows:

- (a) commencing in the first fiscal year after territory is added or one or more of the limitations has been reached, as applicable, an amount equal to 25% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted;
- (b) in addition to amounts payable as described in (a) above, commencing in the 11<sup>th</sup> fiscal year after territory is added or the limitation has been reached, as applicable, an amount equal to 21% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (10<sup>th</sup>) fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted;
- (c) in addition to amounts payable as described in (a) and (b) above, commencing in the 31<sup>st</sup> fiscal year after territory is added or the limitation has been reached, as applicable, an amount equal to 14% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (30<sup>th</sup>) fiscal year that the limitation had been reached,

after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted; and

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

Prior to incurring any loans, bonds, or other indebtedness, except loans or advances from the City, the Agency may subordinate to the loans, bonds or other indebtedness the amount required to be paid to an affected taxing entity by the Tax Sharing Statutes, provided that the affected taxing entity has approved these subordinations. No such subordinations have been requested in connection with the Bonds.

The effect of payments pursuant to the Tax Sharing Statutes are addressed in Table 7 and APPENDIX A — "FISCAL CONSULTANT'S REPORT."

The Agency covenants in the Indenture it will not amend the Redevelopment Plan in a manner that will reduce Tax Revenues in any future Fiscal Year unless the Agency first obtains the report of an Independent Redevelopment Fiscal Consultant stating that the coverage requirements of the Indenture (relating to Parity Debt), will be met immediately following the effective date of such amendment.

#### **Agreements with Private Entities and the Orange County Transit Authority**

The Agency has entered into a number of agreements in order to implement the Redevelopment Plan, including disposition and development agreements ("DDAs"), Owner Participation Agreements ("OPAs"), operating covenants, real property, purchase and sale agreements, and leases. Most of these agreements represent general obligations of the Agency or are secured by real or personal property other than Tax Increment Revenues. A few of these agreements, as described below, are secured by a pledge of tax increment that is subordinate to the Bonds, or a pledge of only that portion of tax increment required to be deposited into the Agency's low and moderate income housing fund under the California Redevelopment Law ("Housing Funds"), which Housing Funds are not included within Tax Revenues.

##### **a. Hotel Program [confirm/update]**

A major component of Redevelopment Plan implementation in recent years has been the Agency's hotel program, pursuant to which the Agency has entered into DDAs with a number of developers to facilitate the acquisition, assembly, disposition and development of land as major tourist-oriented hotels. Each of these hotel DDAs (the "Hotel DDAs") has utilized a similar structure, involving the acquisition by the Agency of real property and the conveyance thereof to the developer, in exchange for the developer's promise to develop and operate a specified hotel product thereon. In consideration for the continuous operation of each of the specified hotels, the Agency pays certain financial assistance to the Developer to help defray construction costs. In addition to the Hotel DDAs, the Agency entered into two (2) OPAs, one with the owner of property on which an existing hotel and office building are located, pursuant to which the owner agreed to rehabilitate the existing buildings into a first-class all-suites hotel (the "Hyatt OPA"), and one with the owner of vacant land, pursuant to which the owner agreed to construct and operate a mid-rise hotel (the "Rigg Hotel OPA"). In exchange for each owners'

covenant to continuously operate the respective hotel, the Agency agreed to provide certain financial assistance to the owner.

In all, the payments to be made by the Agency over the course of the operating covenant periods set forth in the Hotel DDAs and the Hyatt OPA, the last of which ends in fiscal year 2020-21, could amount to as much as [\$67,607,779.00]. Projected annual payments range from approximately \$3.7 million per year to approximately \$4 million. The amounts owed decline after 2015-16. None of the Hotel DDAs, nor the Hyatt OPA, involve a pledge of tax increment. Details regarding each of the Hotel DDAs, the Hyatt OPA and the Rigg Hotel OPA, including projected annual payments and the length of the Agency's payment obligations, are set forth below.

Each of the Hotel DDAs utilized the same basic structure to accommodate the Agency's assemblage of large land parcels for development as multiple tourist-serving hotels and restaurants. First, the Agency agreed to attempt to acquire a composite hotel site (the "Composite Site") on which multiple hotels and restaurants are to be constructed. The Agency further agreed that, upon acquisition of the Composite Site, it would convey a portion thereof to the subject developer in exchange for a promissory note in an amount equal to the Agency's acquisition costs for the Composite Site (the "Total Acquisition Cost") multiplied by the ratio of the conveyed property to the total Composite Site (the "Allocable Acquisition Costs"). The developer agreed to construct and open an approved hotel product called for in the DDA, and the Agency agreed, upon completion of the development and opening of the hotel, to make annual payments to the developer (the "Developer Payments") in exchange for the continuous operation of the hotel without any defaults under the DDA for a seven to ten year period. During the first seven (7) years of hotel operations, payments are equal to the lesser of (a) the sum (or, in some cases, a portion or percentage of the sum) of transient occupancy taxes, sales taxes, and property tax increment generated by the hotel and received by the Agency or the City (the "Tax Revenues") during the year in excess of a set "Prior Base Level" (the "Generated Revenues"), and (b) a specified dollar amount. In addition, during this first seven year period, a portion of the promissory note is forgiven annually in an amount (the "Net Revenues") equal to the Generated Revenues for such year, less the Developer Payment paid to the developer for such year. During the eighth through tenth year of the hotel's operation, to the extent the promissory note has been repaid or fully forgiven, annual Developer Payments are made in an amount equal to the Generated Revenues for the applicable year. The sum of the Developer Payments is not in any event to exceed a "Maximum Credit Amount", defined differently in each DDA.

One of the Combined Sites to be assembled by the Agency was an 18.27-acre site located at the southwest corner of Harbor Boulevard and Chapman Avenue (the "Southwest Corner Site"). The Agency entered into three (3) Hotel DDAs, described below, for the Southwest Corner Site. Total Acquisition Cost for the Southwest Corner Site was \$16,799,000.

In the Landmark Hospitality DDA, the Agency conveyed a portion of the Southwest Corner Site (the "Landmark Property") to Landmark Hospitality, LLC, on which the developer agreed to construct a Renaissance Suites hotel or similar hotel product approved by the Agency, which was completed in 2002. The promissory note for the Landmark Property was in the amount equal to 32.73% of the Total Acquisition Costs, or \$6,125,915.00. The last Developer Payment under the Landmark Hospitality DDA was paid in 20\_\_-\_\_.

In the OHI DDA, the Agency conveyed a portion of the Southwest Corner Site (the "OHI Property") to OHI Resort Hotels, LLC, on which the developer agreed to construct a Crowne Plaza Hotel or similar hotel product approved by the Agency, which was completed in 2000.

The promissory note for the OHI Property is in an amount equal to 38.31% of the Total Acquisition Costs, or \$7,170,297.00. The Generated Revenues are equal to all annual Tax Revenues over \$32,700.00, and the maximum Developer Payment in each of the first seven (7) years of operation is not to exceed the lesser of (i) as to the first year, the Generated Revenues, or \$800,000.00; (ii) as to the second year, Generated Revenues for such year in excess of \$250,000.00, or \$700,000.00, plus any amount by which the Developer Payment for the first year was less than \$800,000.00; (iii) as to the third year, Generated Revenues for such year in excess of \$350,000.00, or \$600,000.00; (iv) as to the fourth year, Generated Revenues for such year in excess of \$500,000.00 or \$600,000.00; (v) as to the fifth year, Generated Revenues for such year in excess of \$500,000.00 or \$600,000.00; (vi) as to the sixth year, Generated Revenues for such year in excess of \$500,000.00, or \$600,000.00; and (vii) as to the seventh year, Generated Revenues for such year in excess of \$500,000.00 or \$300,000.00. The Maximum Credit Amount for the Landmark Property is \$4,200,000.00.

In the Chapman DDA, the Agency conveyed a portion of the Southwest Corner Site (the "Homewood Property") to Chapman Suites, LLC, on which the developer agreed to construct a Homewood Suites Hotel or similar hotel product approved by the Agency, which was completed in 2000. The promissory note for the OHI Property is in an amount equal to 18.61% of the Total Acquisition Costs, or \$3,483,143.00. The Generated Revenues are equal to all annual Tax Revenues over \$32,700.00, and the maximum Developer Payment in each of the first seven (7) years of operation is not to exceed the lesser of (i) as to the first year, the first \$382,000.00 of Generated Revenues; (ii) as to the second year, Generated Revenues for such year in excess of \$200,000.00, or \$292,000, plus any amount by which the Developer Payment for the first year was less than \$382,000.00; (iii) as to the third year, Generated Revenues in excess of \$250,000.00, or \$250,000.00; (iv) as to the fourth year, Generated Revenues in excess of \$280,000.00, or \$242,000.00; (v) as to the fifth year, Generated Revenues in excess of \$300,000.00, or \$242,000.00; (vi) as to the sixth year, Generated Revenues in excess of \$400,000.00, or \$192,000.00; and (vii) as to the seventh year, Generated Revenues in excess of \$400,000.00, or \$100,000.00. The Maximum Credit Amount for the Homewood Property is \$1,700,000.00.

The second Combined Site as to which the Agency entered into multiple Hotel DDAs was a 10-acre parcel located on the west side of Harbor Boulevard, north of Chapman Avenue (the "Harbor Boulevard Site"). The Agency entered into three (3) Hotel DDAs with respect to this site. These three (3) Hotel DDAs are structured in the same manner as the Hotel DDAs relating to the Southwest Corner Site. Total Acquisition Cost for the Harbor Boulevard Site was \$16,035,000.00.

In the Landmark Hotels DDA, the Agency conveyed a portion of the Harbor Boulevard Site (the "Landmark Hotels Property") to Landmark Hotels, LLC, on which the developer agreed to construct an Embassy Suites Hotel or similar hotel product approved by the Agency, which was completed in 2001. The promissory note for the Landmark Hotels Property is in an amount equal to fifty percent (50%) of the Total Acquisition Cost of the Harbor Boulevard Site, or \$8,017,655.00. The Generated Revenues are equal to all annual Tax Revenues over \$150,000.00, and the maximum Developer Payment in each of the first seven (7) years of operation is not to exceed the lesser of (i) as to the first year, the Generated Revenues in excess of \$250,000.00, or \$700,000.00; (ii) as to the second year, Generated Revenues for such year in excess of \$250,000.00, or \$600,000.00; (iii) as to the third year, Generated Revenues for such year in excess of \$250,000.00, or \$500,000.00; (iv) as to the fourth year, Generated Revenues for such year in excess of \$250,000.00, or \$500,000.00; (v) as to the fifth year, Generated Revenues for such year in excess of \$250,000.00, or \$500,000.00; (vi) as to

the sixth year, Generated Revenues for such year in excess of \$250,000.00, or \$400,000.00; and (vii) as to the seventh year, Generated Revenues for such year in excess of \$500,000.00, or \$300,000.00. The Maximum Credit Amount for the Landmark Hotels Property is \$3,500,000.00.

In the Garden Grove Lodging DDA, the Agency conveyed a portion of the Harbor Boulevard Site (the "Garden Grove Lodging Property") to Harbor Suites, LLC, on which the developer agreed to construct a hotel, which was completed in 1999. The promissory note for the Harbor Suites Property is in an amount equal to twenty-five percent (25%) of the Total Acquisition Cost of the Harbor Boulevard Site, or \$3,424,419.00. The Generated Revenues are equal to all annual Tax Revenues over \$75,000.00, and the maximum Developer Payment in each of the first seven (7) years of operation is not to exceed amount equal to twenty percent (20%) of the Generated Revenues as received and retained by the Agency and/or the City from the operation of the approved hotel product in conformity with the Harbor Suites DDA. The Maximum Credit Amount for the Harbor Suites Property is \$1,000,000.00.

In the Garden Grove Lodging DDA, the Agency conveyed a portion of the Harbor Boulevard Site (the "Garden Grove Lodging Property") to Garden Grove Lodging, LLC, on which the developer agreed to construct a Hilton Garden Inn or similar hotel product approved by the Agency, which was completed on or about August 17, 1999. The promissory note for the Harbor Suites Property is in an amount equal to twenty-five percent (25%) of the Total Acquisition Cost of the Harbor Boulevard Site, or \$3,372,811.00. The Generated Revenues are equal to all annual Tax Revenues over \$75,000.00, and the maximum Developer Payment in each of the first seven (7) years of operation is not to exceed an amount equal to twenty percent (20%) of the Generated Revenues as received and retained by the Agency and/or the City from the operation of the approved hotel product in conformity with the Harbor Suites DDA. The Maximum Credit Amount for the Harbor Suites Property is \$1,000,000.00.

In the Hyatt OPA, the owner of the property covenanted to rehabilitate two existing buildings into a first-class all-suites hotel, and to continuously operate such hotel on the site until expiration of the Redevelopment Plan in 2033 (the "Hyatt Operating Covenant"). The purchase price for the Hyatt Operating Covenant is equal to seventy-five percent (75%) of "net new" transient occupancy tax ("TOT") revenues and tax increment ("TI") revenues generated by the hotel site over a seventeen year period commencing upon the opening of the hotel. "Net new" TOT revenues are TOT revenues in excess of the average annual TOT revenues received by the City from the existing hotel on the site during 1996, 1997, and 1998 plus a 1% per year increase beginning with the year after the first installment of the Hyatt Operating Covenant purchase price is paid. "Net new" TI revenues are TI revenues in excess of the average annual TI revenues received by the Agency during 1996, 1997, and 1998 plus a 2% per year increase beginning with the year after the Agency pays the first installment of the Hyatt Operating Covenant purchase price is paid. The purchase price for the Hyatt Operating Covenant will be paid in full in fiscal year 2018-2019. The Agency paid the owner \$484,231.98 in fiscal year 2002-2003, and projections show such annual payments at \$900,000.00 in 2003-2004, \$1,200,000.00 in 2004-2005, with continuing, albeit smaller, annual increases until 2018-2019 at which time the payment is estimated at \$1,583,374.52. [update]

In the Rigg Hotel OPA, the Agency contracted with Rigg Hotel, LLC for the development of a 165 to 200 room, mid-rise, limited service, extended stay or full-service hotel, operated as a Residence Inn by Marriott or other brand approved by the Agency. In consideration for Rigg Hotel's construction of and covenant to operate the hotel for a period ending in 2034, in accordance with an operating covenant to be executed concurrently with the hotel's opening,

the Agency agreed to pay an amount equal to 75% of the TOT and "net new" TI revenues generated by the hotel site over a 17-year period beginning on the first day of the first semi-annual period (i.e., January 1 or July 1) after the hotel is opened to the public.

The Agency's payments with respect to the Sheraton, the Hyatt and the Residence Inn are still outstanding.

b. Commercial Rehabilitation Agreements

[confirm/update]

In addition to the Hotel DDAs, rehabilitation of existing commercial properties has been an important focus of the Agency's redevelopment efforts. The Agency has entered into a number of OPAs and grant or loan agreements to achieve such rehabilitation within the Project Area. Many of these agreements call for annual payments to be made by the Agency to the property owner to assist in the owner's financing of such rehabilitation work. Of the current rehabilitation agreements, the following constitute substantial financial obligations of the Agency: (1) An agreement for the rehabilitation of certain real property leased by Boise Cascade, pursuant to which the Agency is obligated to pay an amount equal to one-half of the sales tax generated by the improvements on the leasehold (currently projected to be over \$900,000 per year through fiscal year 2015-16), up to the cost of the rehabilitation and retrofit thereof; (2) an agreement with an auto dealer, pursuant to which the Agency agreed to loan the dealer \$2,200,000 over a period of fifteen years to rehabilitate its facilities, the repayment of which is forgiven annually to the extent sales tax proceeds from the dealership meet or exceed a certain dollar amount. None of the rehabilitation agreements include a pledge of Tax Incremental Revenues.

[[c. Affordable Housing Agreements

[confirm/update]

Provision of affordable housing is an important goal of the Redevelopment Plan, and a requirement under the California Redevelopment Law. herefore

Agency Housing Funds comprise a portion of Tax Revenues only to the extent such amounts are pledged in connection with Parity Debt. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."]]

2007. Acquisition Agreements and Leases

[confirm/update]

In order to further accomplish the goals of the Redevelopment Plan, the Agency must acquire property. Through a variety of agreements, the Agency has acquired fee title to or leasehold interests in real estate within the Project Area. A number of these agreements involve ongoing financial obligations for the Agency, the most significant of which are discussed hereinbelow, one of which involves a subordinated pledge of tax increment.

In addition to acquiring fee title to property, the Agency currently leases property pursuant to three (3) ongoing lease agreements. Under the first of these leases, with the Coastline Community College District, the Agency is obligated to make annual lease payments of approximately \$230,000 through fiscal year 2015-2016. While the lease also calls for the Agency to pay a portion of maintenance costs for the leasehold property, the Agency has yet to be billed for such costs, and no such costs are projected in the remaining years of the lease. Under the second lease, with the Purcell Family Trust, the Agency is obligated to make annual lease payments amounting to between \$463,000 to \$500,000 over the next three fiscal years,



along with associated operating expenses of \$4,400 to \$5,125 annually. Finally, the Agency also entered into a lease in 2002 with Countywide Rambler, Inc., pursuant to which the Agency leased space for the erection of a freeway-oriented identification sign. The Agency is obligated to pay rent equal to a portion of sales and use tax revenues generated by the property, up to \$80,000 per year during the term of the lease, which expires in 2032.

### **Possibility of Claims of School District and Community College District to Certain Payments**

Section 33676 of the Redevelopment Law used to allow taxing entities to elect to claim for themselves (and thus exclude from tax increment revenues available to an agency) the portion of tax increment revenues attributable to inflationary growth as determined under Section 110.1(f) of the Revenue and Taxation Code. School districts and community college districts were directed by Section 33676 to make such election pursuant to a specific procedure prior to adoption of any redevelopment plan or amendment, unless a tax sharing agreement existed between the redevelopment agency and the taxing entity.

In the case of *Santa Ana Unified School District v. Orange County Development Agency*, the State Court of Appeals upheld the determination of a trial court that where the County of Orange had adopted a redevelopment project in 1986 and a school district which served the project area had failed to submit a resolution electing to receive a proportionate share of property tax revenues attributable to inflationary growth as determined under Section 110.1(f) of the Revenue and Taxation Code, the school district should nevertheless be deemed entitled to receive such revenues under Health and Safety Code Section 33676 as in effect as of 1986. Section 33676 has been the subject of amendments both before and after 1986 but was in substantially the same form between 1984 and 1993. The Fiscal Consultant has determined that there are agreements with the school district and community college district serving the 1992 Area, the only territory added to the Project Area during the time period relevant under the Santa Ana decision, and hence there will be no impact on the Tax Revenues in connection with the decision in or principles established under the Santa Ana decision. See APPENDIX A — "FISCAL CONSULTANT'S REPORT — Recent Court Decisions — Santa Ana Decision." [to be updated]

### **Financial Statements**

Included in this Official Statement as Appendix B are the audited financial statements of the Agency for the year ended June 30, 2010 reproduced from the report thereon rendered by \_\_\_\_\_, independent accountants for the Agency ("Agency Auditor"). The Agency Auditor has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

## **THE GARDEN GROVE COMMUNITY DEVELOPMENT PROJECT**

The Project Area consists of approximately 1,975 acres and consists of commercial, industrial, housing and public land uses including the City's civic center.

The first redevelopment project area was created with the adoption of the Redevelopment Plan for Community Project No. 1 (the "Community Project") in June 1973. One year later in 1974, following the renaming of the redevelopment agency to the Garden Grove Agency for Community Development, the Redevelopment Plan was amended to include within the project area, twelve non-contiguous parts located throughout the City representing the community's need for redevelopment at that time. [ is this the Community Center area? – see below?]

A second redevelopment project area was designed in 1975, and in December of that year, the Redevelopment Plan for the Trask Avenue Project was adopted by the City Council. The Trask Avenue Project included former State excess property located along the Garden Grove Freeway between Brookhurst Street and Magnolia Street.

On November 22, 1976, the City Council approved and adopted a second amendment to the Redevelopment Plan for the Community Project. This amendment included the addition of approximately 100 acres to the project area, added several new areas throughout the community, and connected, by way of public streets, all the previously non-contiguous portion of the project area. A total of 78 acres of land was also amended out of the Community Project.

A third redevelopment project area was formally adopted in March 1977, with the approval and adoption of the Redevelopment Plan for the Brookhurst/Chapman Project. This project area is located on the north side of Chapman Avenue between Brookhurst Street and Gilbert Street, and includes the area previously known as Orange County Plaza, one of the first shopping centers in Orange County.

A fourth redevelopment project area was adopted on January 23, 1978, when the City Council adopted the Brookhurst/Katella Project. The project area, containing approximately 16 acres of land, is located at the southwest corner of Brookhurst/Katella area is partially improved with retail, commercial and office professional uses.

On October 9, 1979 and on June 9, 1981, the City Council approved and adopted amendments to the Redevelopment Plan for the Community Project to be known as the Garden Grove Community Project. These amendments combined four project areas: Community Center; Trask Avenue; Brookhurst/Chapman and Brookhurst/Katella into one project as well as incorporating various commercial centers and street frontage properties.

In 1987, the City amended the Redevelopment Plan for the Garden Grove Community Project by including certain provisions required under Section 33333.4 of the Redevelopment Law.

In 1988, the City Council approved and adopted an amendment to the Redevelopment Plan deleting the Newhope Condominium project and on July 14, 1992 the City Council approved an ordinance adding 574 acres to the Project Area, consolidating the four (4) pre-existing tax increment revenue limits and increasing the consolidated limit, extending the Agency's eminent domain time frame, extending the life of the Redevelopment Plan, extending the time frame in which the Agency may incur debt in the Project Area, increasing the limit on bonded debt that the Agency may incur at one time and updating and expanding the list of public improvements the Agency may implement to benefit the Project Area.

In 1992, the City approved Ordinance No. 2232, under which the Redevelopment Plan was amended to add the 1992 Area to the Project Area, to extend the term of the

Redevelopment Plan and to increase the financial limitations for the Project Area. In 1994, under Ordinance No. 2304 of the City, the Agency amended certain time limits on the incurring of debt and the receipt of tax increment revenues. In 1998, under City Ordinance No. 2455, the Agency added the 1998 Area to the Project Area. In 2002, by City Ordinance No. 2576, the Agency added the 2002 Area to the Project Area.

### **Redevelopment Plan Purposes and Objectives**

The purposes and objectives of the Redevelopment Plan are to lessen or eliminate the conditions of blight existing in the Project Area and to prevent the recurrence of blighting conditions in the Project Area. The Agency proposes to eliminate such conditions and prevent their recurrence by providing, pursuant to the Redevelopment Plan, for the planning, development, re-planning, redesign, redevelopment, reconstruction and rehabilitation of the Project Area and by providing for such structures and spaces as may be appropriate or necessary in the interest of the general welfare, including, without limitation, incidental recreational and other facilities. The Agency further proposes to eliminate the conditions of blight existing in the Project Area by providing for open space types of uses, public and private buildings, structures, facilities, and improvements. The Agency further proposes to eliminate such conditions and prevent their recurrence by providing for the re-planning or redesign or redevelopment of undeveloped areas. Within the Project Area the Agency proposes to: (a) encourage employment opportunities through environmental and economic improvements resulting from the redevelopment activities; (b) provide for the rehabilitation of commercial structures and residential dwelling units; (c) provide for participation in the redevelopment of property in the Project Area by owners who agree to so participate in conformity with the Redevelopment Plan; (d) provide for the management of property owned or acquired by the Agency; (e) provide relocation assistance where Agency activities result in displacement; (f) provide public infrastructure improvements and community facilities, such as the installation, construction and/or reconstruction of streets, utilities, public buildings, facilities, structures, street lighting, landscaping and other improvements which are necessary for the effective development of the Project area; (g) increase, improve and preserve the community's supply of affordable housing; (h) acquire real property; (i) dispose of real property acquired by the Agency except property conveyed to it by the City or any other public body; (j) encourage the redevelopment of the Project Area through the cooperation of private enterprise and public agencies; (k) provide for the enhancement, retention, and expansion of businesses within the Project Area to promote their economic viability; and (l) Encourage the conservation, rehabilitation, and development of the Project Area in accord with the General Plan, design guidelines, specific plans, the Redevelopment Plan, and local codes, resolutions and ordinances.

### **Historical Valuations and Tax Increment Revenues**

Assessed values within the Project Area followed a pattern of strong growth from 2001-02 through 2008-09. The average growth in incremental value for this period was 10.43 percent per year. Due to the impact of general economic stress in California, growth in the Project Area was 2.42 percent in 2009-10. The Project Area experienced a decline in incremental value of -4.91 percent for 2010-11. The growth in value within the Project Area was experienced among all land use categories through 2008-09. In 2009-10, residential values declined by \$58.99 million (-8.97%) while values among commercial, industrial and unsecured valuations grew by \$112.1 million (4.99%). For 2010-11, the value of parcels in the residential category increased in value by \$32.5 million (5.42%) while commercial property values declined by \$68.4 million (-4.8%); industrial property values increased by \$20.5 million (3.4%) and unsecured values

declined by \$25.5 million (-7.9%).

The following were the assessed valuations and Tax Increment Revenues for the Project Area from fiscal year 2004-05 through 2009-10.

**Table 2**  
**Garden Grove Agency for Community Development**  
**Garden Grove Community Project**  
**Historical Assessed Valuation and Tax Increment Revenue**

Fiscal Year	Assessed Valuation	Percentage of Increase in Assessed Valuation	Incremental Assessed Valuation	Gross Tax Increment <sup>(2)</sup>	Housing Set-Aside	Senior Obligations <sup>(3)</sup>	Tax Revenues	% of Increase in Tax Revenues
2004-05	\$2,144,699,201	6.86%	\$1,624,221,525	\$18,225,359	\$3,645,072	\$5,195,065	\$9,385,222	
2005-06	2,345,640,277	9.37%	1,825,162,601	20,543,029	4,108,606	7,664,327	8,770,096	-6.55%
2006-07	2,519,727,774	7.42%	1,999,250,098	21,544,530	4,308,906	7,878,966	9,356,658	6.69%
2007-08	2,721,448,722	8.01%	2,200,971,046	23,725,540	4,745,108	7,826,292	11,154,140	19.21%
2008-09	3,007,093,970	10.50%	2,486,638,414	27,435,829	5,487,166	8,913,721	13,034,942	16.86%
2009-10	3,067,230,314	1.99%	2,546,724,183	26,281,365	5,256,273	7,073,724	13,951,368	7.03%
2010-11 <sup>(4)</sup>	2,945,282,546	(3.98%)	2,421,671,853	26,411,250	5,282,250	8,277,482	12,851,518	-7.88%

(1) County of Orange Lien Date Rolls.

(2) Orange County Auditor-Controller annual Tax Ledger.

(3) Inclusive of Tax Sharing Agreement Payments, County Administrative Charges and Tax Sharing Statute Payments. Agency records through June 1, 2011. Pass through amounts for 20111 are incomplete. Final calculations will not be available until the end of August 2011.

(4) Projected by HdL Coren & Cone. Does not include supplemental assessments, roll changes, refunds or other adjustments to revenue.

The Project Area is subject to various limitations upon the receipt of Tax Increment Revenues by the Agency. See the caption "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Plan Limitations." The Fiscal Consultant's Report includes tax collections for fiscal years 2005-06 through 2009-10 and projections of Tax Revenues for the Project Area. See APPENDIX A — "FISCAL CONSULTANT'S REPORT."

The limitations as to receipt of Tax Increment Revenues, which are different as to the various component areas of the Project Area, are set forth below.

**Table 3**  
**Garden Grove Agency for Community Development**  
**Garden Grove Community Project**  
**Historical Assessed Valuation and Tax Increment Revenue**  
**For Fiscal Year 2010-11**

	<u>Gross Revenue</u>	<u>Percentage of Project Area Gross Revenue</u>	<u>Last Fiscal Year to Receive Tax Revenue</u>
Original Project Area	\$ 138,000	0.86%	2022-23
1973- 74 Amendment Area	6,641,000	41.18%	2023-24
Trask Project Area	242,000	1.50%	2024-25
1976 Amendment Area	1,021,000	6.33%	2025-26
Brookhurst/Chapman Area	482,000	2.99%	2026-27
Brookhurst/Katella Area	162,000	1.00%	2027-28
1979 Amendment Area	5,382,000	33.38%	2028-29
1980-81 Amendment Area	2,000	0.02%	2030-31
1992 Area	2,013,000	12.48%	2041-42
1998 Area	5,000	0.03%	2042-43
2002 Area	37,000	0.23%	2047-48
<b>Total Project Area:</b>	<b>\$16,126,000</b>	<b>100.00%</b>	

Source: HdL Coren & Cone

The Redevelopment Plan is a general plan for redevelopment and, therefore, does not specifically define what activities or development projects will eventually occur in the Project Area. Land uses within the Project Area are shown below.

**Table 4**  
**Garden Grove Agency for Community Development**  
**Garden Grove Redevelopment Project**  
**Assessed Valuation by Land Use**  
**Land Use By Secured Assessed Valuation**  
**For Fiscal Year 2010-11**

<u>Land Use Category</u>	<u>Number of Parcels</u>	<u>2010-11 Assessed Valuation</u>	<u>Percentage of Total</u>
Residential	2,299	\$630,942,559	21.42%
Commercial	716	1,368,570,163	46.47%
Industrial	267	618,656,005	21.00%
Vacant Land	216	28,378,728	0.96%
Exempt	155	0	0.00%
<b>Subtotal</b>	<b>3,653</b>	<b>\$2,646,547,455</b>	<b>89.86%</b>
SBE Non-Unitary		576,070	0.02%
Cross Reference		14,221	0.00%
Unsecured		298,144,800	10.12%
<b>Subtotal</b>		<b>\$298,735,091</b>	<b>10.14%</b>
<b>Totals</b>	<b>3,653</b>	<b>\$2,945,282,546</b>	<b>100.00%</b>

Source: Orange County Assessor 2010-11 Tax Rolls.

The following table shows the ten largest taxpayers on the secured roll in the Project Area for the 2010-11 assessment year. The top ten taxpayers on the secured roll represent approximately 17.59% of the total assessed value on the secured roll. See the caption "THE GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT — Reduction in Taxable Value".

**Table 5**  
**Garden Grove Agency for Community Development**  
**Garden Grove Redevelopment Project**  
**Top Ten Taxable Secured Taxpayers**  
**Based Upon 2010-11 Assessed Valuation**

Property Owner	Combined Value	% of Project Area Value	% of Project Area Incremental Value	Location
Landmark Hotels LLC	\$101,065,815	3.43%	4.17%	1979 and 1992 Amendments
American Lodging Garden Grove	54,800,000	1.86%	2.26%	1979 Amendment
KPA Rigg LLC	52,394,920	1.78%	2.16%	1979 Amendment
New Age Garden Grove LLC	42,370,485	1.44%	1.75%	1979 Amendment
OHI Resort Hotels LLC	40,259,564	1.37%	1.66%	1979 and 1992 Amendments
CAR NOA GGT LLC	35,146,857	1.19%	1.45%	Trask Amendment
BB Promenade LLC	25,380,236	0.86%	1.05%	1976 Amendment
Swedlow Inc.	25,091,618	0.85%	1.04%	1974 Amendment
MPT of Garden Grove Hospital LP	24,940,743	0.85%	1.03%	1979 Amendment
CrP-2 Monarch LLC	24,421,981	0.83%	1.01%	1974 Amendment
Top Property Owner Total Value	\$425,872,219			
Project Area Assessed Value	\$2,945,282,546	14.46%		
Project Area Incremental Value			17.59%	

Source: County of Orange Secured Tax Rolls.

### Assessment Appeals

**Proposition 8 Appeals.** Most of the appeals that might be filed in the Project Area would be based on 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 under 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. Under 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. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. 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 of the California Constitution. The State Board of Equalization has approved this reassessment

## TAX REVENUES AND ANNUAL DEBT SERVICE

### Current Year Assessed Valuation

Following is the 2010-11 assessed value for the Garden Grove Community Project. Incremental taxable value is shown under the caption "THE GARDEN GROVE COMMUNITY DEVELOPMENT PROJECT — Historical Valuations and Tax Increment Revenues." These values represent gross valuations before any adjustments are made. Please see APPENDIX A — "FISCAL CONSULTANT'S REPORT."

**Table 6**  
**Garden Grove Agency for Community Development**  
**Garden Grove Community Project**  
**2010-11 Assessed Valuation**

	<i><b>Assessed Valuation</b></i>
<b>Secured<sup>(1)</sup>:</b>	\$2,667,220,471
<b>Personal Property</b>	17,570,504
<b>Exemptions</b>	<u>(37,653,229)</u>
<b>Total Secured</b>	2,647,137,746
<b>Total Unsecured</b>	<u>298,144,800</u>
<b>GRAND TOTAL</b>	<u><u>\$2,945,282,546</u></u>

<sup>(1)</sup> Secured values include state assessed non-unitary utility property valued at \$576,070 as of 2010-11.  
Source: County of Orange Lien Date Rolls

### Projected Tax Revenues and Debt Service Coverage

The following Table 7 shows projections of Tax Increment Revenues, summarized from APPENDIX A — "FISCAL CONSULTANT'S REPORT." See the Fiscal Consultant's Report for a projection for the entire term of the Bonds and a further description of the assumptions and limiting conditions relative to these projections. The following Table 8 shows projections of Tax Increment Revenues on a similar basis, but assuming zero percent (0%) inflationary growth. Based on expected debt service on the Bonds, the Agency expects estimated Tax Revenues based on 2010-11 assessed values to exceed two times Maximum Annual Debt Service on the Bonds at all times. Investors are cautioned that Tax Revenues will be reduced significantly when the 1974 Amendment Area expires in July of 2024, and when other component areas expire, including when the 1979 Amendment Area expires in October of 2029. See "BOND OWNERS' RISKS."

formula and such formula has been used by county assessors statewide. The reassessment formula was approved by the California of Appeal, Fourth District, in the recent case of County of Orange et al. v Bezaire, petition for review to the California Supreme Court denied.

The Fiscal Consultant has reviewed assessment appeals data from Orange County to determine the potential impact that pending appeals may have on the projected Tax Revenues. The Fiscal Consultant has reviewed assessment appeals data for commercial and industrial property from Orange County to determine the potential impact that pending appeals may have on the projected Tax Revenues. Within the Project Area, there are 218 pending appeals. Six of the Project Area's top ten taxpayers have pending appeals of their assessed value. Within the 1979 Amendment, American Lodging Garden Grove Harbor LLC, KPA Rigg LLC, New Age Garden Grove LLC and MPT of Garden Grove Hospital have assessment appeals pending. Within the Trask Amendment, CAR NOA GGT LLC has assessment appeals pending; and within the 1974 Amendment CRP-2 Monarch LLC has assessment appeals pending. The estimated impact of value losses resulting from these pending appeals has been incorporated into the projected revenues for each component project area and, cumulatively, into the projected revenues of the Project Area. See APPENDIX A — "FISCAL CONSULTANT'S REPORT." There is no assurance that the resolution or impact of appeals will conform to historical averages. In the event reductions are greater than estimated by the Fiscal Consultant, Tax Revenues would be reduced.

The following table shows the amount of assessed value that is presently under appeal and the estimated reduction of value that has been factored into the projections for 2011-12. There are no pending appeals within Brookhurst/Chapman, 1981 Amendment or the 1998 Amendment.

Total No. of Appeals	No. of Resolved Appeals	No. of Successful Appeals	Average Reduction	No. and Value of Appeals Pending	Estimated No. of Appeals Allowed	Est. Reduction of Pending Appeals Allows (2011-12 Value Adjustment)
483	265	219	25.25%	218 (\$713,108,382)	180	\$160,653,215

**Transfers Of Ownership in the Project Area.** According to the Fiscal Consultant's Report, there have been 129 transfers of ownership within the Project Area since January 1, 2010. These transfers of ownership represent a combined decrease of \$278,982 in assessed value that is expected to be subtracted from the tax rolls for 2011-12. Development projects continue to be constructed within the Project Area. [to be updated]





**Table 7**  
**Garden Grove Agency for Community Development**  
**Garden Grove Community Project**  
**Projected Tax Revenues and Debt Service Coverage**  
**(000s Omitted)**

Fiscal Year Ending June 30	Assessed Valuation <sup>(1)</sup>	Percentage of Increase in Assessed Valuation	Incremental Assessed Valuation <sup>(2)</sup>	Gross Tax Increment <sup>(3)</sup>	Senior Obligations <sup>(4)</sup>	SB 2557 Charge	Housing Set-Aside	Tax Revenues <sup>(5)</sup>	Percentage of Increase in Tax Revenues	Debt Service <sup>(6)</sup>	Coverage <sup>(7)</sup>
2010-11	2,945,283		2,421,672	26,411	(8,277)	(214)	(5,282)	12,638			
2011-12	2,815,912	-4.4%	2,292,301	25,100	(8,159)	(203)	(5,020)	11,719	-7.3%		
2012-13	2,881,810	2.3%	2,358,199	25,801	(8,395)	(209)	(5,160)	12,038	2.7%		
2013-14	2,937,357	1.9%	2,413,746	26,392	(8,629)	(213)	(5,278)	12,271	1.9%		
2014-15	2,992,000	1.9%	2,468,389	26,973	(8,924)	(218)	(5,395)	12,437	1.3%		
2015-16	3,047,736	1.9%	2,524,125	27,566	(9,223)	(223)	(5,513)	12,606	1.4%		
2016-17	3,104,586	1.9%	2,580,976	28,170	(9,534)	(228)	(5,634)	12,775	1.3%		

(1) Fiscal Year 2010-11 assessed valuation is the final amount certified by the Orange County Auditor-Controller as of the lien date. Assessed valuation growth for fiscal year 2011-12 through 2016-17 is based on a 0.753% annual inflationary growth factor for fiscal year 2011-12 and on a 2% annual inflationary growth factor thereafter for real property only, adjusted for appeals, new development and for transfers of ownership.

(2) Incremental assessed valuation for a given year is current valuation for such year, less base year assessed valuation in the amount of \$529,079,872.

(3) Gross tax increment is incremental assessed valuation multiplied by the tax rate of 1.0673%, plus estimated unitary tax revenues held constant at 2010-11 levels.

(4) Inclusive of debt service on Senior Bonds. Tax Sharing Agreement Payments and Tax Sharing Statute Payments.

(5) Tax Revenues are Column (4) amounts, less Column (5), Column (6), and Column (7) amounts.

(6) Debt service in each year includes principal and interest payable October 1 of following fiscal year.

(7) Based on Maximum Annual Debt Service on the Bonds.

Source: HdL Coren & Cone

**Table 8**  
**Garden Grove Agency for Community Development**  
**Garden Grove Community Project**  
**Zero Percent Inflationary Growth Projected Tax Revenues and Debt Service Coverage**  
**(000s Omitted)**

<b>Fiscal Year Ending June 30</b>	<b>Assessed Valuation<sup>(1)</sup></b>	<b>Incremental Assessed Valuation<sup>(2)</sup></b>	<b>Gross Tax Increment<sup>(3)</sup></b>	<b>Senior Obligations<sup>(4)</sup></b>	<b>SB 2557 Charge</b>	<b>Housing Set-Aside</b>	<b>Tax Revenues<sup>(5)</sup></b>	<b>Debt Service<sup>(6)</sup></b>	<b>Coverage<sup>(7)</sup></b>
2010-11	2,945,283	2,421,672	26,411	(8,277)	(214)	(5,282)	12,638		
2011-12	2,815,767	2,292,157	25,099	(8,158)	(203)	(5,020)	11,718		
2012-13	2,829,452	2,305,841	25,244	(8,211)	(204)	(5,049)	11,780		
2013-14	2,829,452	2,305,841	25,244	(8,214)	(204)	(5,049)	11,778		
2014-15	2,829,452	2,305,841	25,244	(8,215)	(204)	(5,049)	11,776		
2015-16	2,829,452	2,305,841	25,244	(8,216)	(204)	(5,049)	11,776		
2016-17	2,829,452	2,305,841	25,244	(8,220)	(204)	(5,049)	11,771		
2017-18	2,829,452	2,305,841	25,244	(8,224)	(204)	(5,049)	11,767		
2018-19	2,829,452	2,305,841	25,244	(8,221)	(204)	(5,049)	11,770		
2019-20	2,829,452	2,305,841	25,244	(8,225)	(204)	(5,049)	11,766		
2020-21	2,829,452	2,305,841	25,244	(8,226)	(204)	(5,049)	11,765		
2021-22	2,829,452	2,305,841	25,244	(8,224)	(204)	(5,049)	11,767		
2022-23	2,829,452	2,305,841	25,244	(8,230)	(204)	(5,049)	11,761		
2023-24	2,829,452	2,305,841	25,244	(8,233)	(204)	(5,049)	11,759		
2024-25	2,829,452	2,305,841	25,244	(6,697)	(204)	(5,049)	13,295		
2025-26	2,829,452	2,305,841	25,244	(6,598)	(204)	(5,049)	13,393		
2026-27	2,810,431	2,287,426	25,043	(6,115)	(202)	(5,009)	13,716		
2027-28	1,971,081	1,509,780	16,673	(4,369)	(135)	(3,335)	8,835		
2028-29	1,971,081	1,509,780	16,405	(4,330)	(132)	(3,281)	8,662		

<sup>(1)</sup> Fiscal Year 2010-11 assessed valuation is the final amount certified by the Orange County Auditor-Controller as of the lien date. Assessed valuation growth for fiscal year 2011-12 through 2028-29 is based on a 0% annual inflationary growth factor for real property, adjusted for appeals, transfers of ownership and new development.

<sup>(2)</sup> Incremental assessed valuation for a given year is current valuation for such year, less base year assessed valuation in the amount of \$523,611.

<sup>(3)</sup> Gross tax increment is incremental assessed valuation multiplied by the tax rate of 1.0637%, plus estimated unitary tax revenues held constant at 2010-11 levels.

<sup>(4)</sup> Inclusive of Tax Sharing Agreement Payments and Tax Sharing Statute Payments.

<sup>(5)</sup> Tax Revenues are Column (4) amounts, less Column (5), Column (6), and Column (7) amounts.

<sup>(6)</sup> Debt service in each year includes principal and interest payable October 1 of following fiscal year.

<sup>(7)</sup> Based on projected Annual Debt Service on the Bonds.

Source: HdL Coren & Cone

## **Tax Sharing Statutes**

AB 1290 eliminated the statutory authority to negotiate tax sharing agreements and provided a formula for mandatory tax sharing, applicable to projects adopted after January 1, 1994 or amended after that date to add territory. The formula thus applies to the Project Area.

The AB 1290 formula is set forth in Section 33607.5 of the Redevelopment Law and, to the extent incorporated therein, in Section 33607.7 of the Redevelopment Law, and is referred to herein.

Generally speaking, under the Tax Sharing Statutes, the Agency is to pay to the affected taxing entities (with the exception of those taxing entities that have existing Pass-Through Agreements with respect to the Original Area) percentages of tax increment generated in the Original Area of the Amendment Area, as applicable, as follows:

1. Throughout the term of the Project's eligibility to receive tax increment commencing with a base year determined as of the year the formula first becomes effective, 25% of post Housing Set-Aside Amounts; plus,
2. For the eleventh year of the receipt of tax increment and thereafter, 21% of revenues in excess of tenth year revenue; plus,
3. For the thirty-first year of receipt of tax increment and thereafter, 14% of revenues in excess of thirtieth year revenues.

As indicated, amounts specified as payable to taxing agencies under the AB 1290 formula contained in the Tax Sharing Statutes are to be computed after deducting the Housing Set-Aside amounts.

## **Tax Increment Limitation**

Section 33333.4 of the Redevelopment Law requires redevelopment plans adopted on or after October 1, 1976 and prior to January 1, 1994 to contain, among other things, a limitation on the number of dollars in taxes that may be divided and allocated to the redevelopment agency pursuant to the plan.

Pursuant to the provisions of the Agency's Redevelopment Plan, as amended, the maximum aggregate amount of tax increment revenue the Agency may receive from the Project Area is \$2 billion. There is no limit with respect to the 1998 Amendment and the Amendment Area. Based on Agency records, the Agency has received approximately \$247 million of tax increment revenue through February 2011.

Under the Indenture, the Agency agrees that the aggregate amount of Annual Debt Service remaining to be paid on all Outstanding Bonds, including the Senior Bonds and any additional Parity Debt, shall at no time exceed 95% of the aggregate amount of Tax Revenues which the Agency is permitted to receive under the Plan Limit. In the event that the aggregate amount of Annual Debt Service remaining to be paid on all Outstanding Bonds, and any additional Parity Debt, at any time equals or exceeds 95% of the aggregate amount of Tax Revenues which the Agency is permitted to receive under the Plan Limit, (a) the Agency shall promptly notify the Trustee of such fact in writing, (b) all Tax Revenues thereafter received by

the Agency shall immediately be deposited with the Trustee and be deposited by the Trustee in the Special Fund to be applied for the sole purpose of paying the principal of and interest and, if applicable, redemption premium, on the Bonds and any additional Parity Debt upon the earlier of its scheduled payment date or the date upon which such Tax Revenues can be applied to the early redemption of the Bonds and any additional Parity Debt, as applicable, and (c) not later than July 1 of each succeeding Fiscal Year, the Agency is required to cause to be prepared and filed with the Trustee an accounting which shows the aggregate amount of Annual Debt Service remaining to be paid on all Outstanding Bonds and any additional Parity Debt, and the amount of Tax Revenues which the Agency is permitted to receive under the Plan Limit.

### **Bonded Indebtedness Limitation**

The Redevelopment Plan limits the amount of bonded indebtedness that may be outstanding at any one time with respect to the Project Area to \$475 million.

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

The Redevelopment Law requires that, except under certain circumstances, redevelopment agencies set aside 20% of all gross Tax Increment derived from redevelopment project areas into a low and moderate income housing fund, to be used for the purpose of increasing, improving and/or preserving the community's supply of low and moderate income housing. Such 20% set-aside requirement is referred herein as the "**Housing Set-Aside Amounts.**" The Housing Set-Aside Amounts are pledged to and are available to pay debt service on the Bonds only to the extent the proceeds of the Bonds are deposited in or otherwise allocable (representing allocable reserve funds and issuance costs) to the low and moderate income housing fund of the Agency. However, the Housing Set-Aside is not pledged to and is not available to pay debt service on the Bonds, unless and to the extent the proceeds of the Bonds are deposited in the Low and Moderate Income Housing Fund of the Agency. No portion of the proceeds of the Bonds is planned to be deposited into the Low and Moderate Income Housing Fund. Note, however, that a portion of the debt service on the Bonds and a portion of the debt service on the Senior Bonds is payable from Housing Set-Aside amounts. See Table 8 – Projected Housing Set-Aside Debt Service Coverage. Also see "SECURITY FOR THE BONDS - Allocation of Taxes" herein.

### **ERAF Housing Loan**

Pursuant to Section 33690(c) of the Redevelopment Law, the Agency borrowed funds (the "ERAF Housing Loan") from the Low and Moderate Income Housing Fund of the Agency (the "Housing Fund") to make the payment on \_\_\_\_\_, 2004 in the amount of \$\_\_\_\_\_ and on \_\_\_\_\_, 2005 in the amount of \$\_\_\_\_\_ and on \_\_\_\_\_, 2006 in the amount of \$\_\_\_\_\_ required by Section 33690(a) of the Redevelopment Law (collectively, the "ERAF Payment"). Section 33690(c) of the Redevelopment Law requires that the Agency repay the SERAF Housing Loan to the Housing Fund on or before June 30, 2015. Section 33690(a) of the Redevelopment Law is, as of the date hereof, the subject of litigation to determine its validity under the State Constitution and laws of the State. If Section 33690(a) of the Redevelopment Law is determined to be valid, then the Agency has covenanted in the Indenture as follows: (i) the Agency shall repay timely the SERAF Housing Loan to the Housing Fund in a manner that does not adversely impact the ability of the Agency to pay debt service on the Bonds and all Parity Debt or, in the alternative, (ii) in the event the Agency does not timely repay the SERAF Housing Loan to the Housing Fund, the Agency shall make the increased deposits of taxes into the Housing Fund required by Section 33690(c) of the Redevelopment Law in a manner that

does not adversely impact the ability of the Agency to pay debt service on the Bonds and all Parity Debt. In the event Section 33690(a) of the Redevelopment Law is judicially determined to be invalid, then the Agency shall reimburse the Housing Fund as may be appropriate under applicable law in a manner that does not adversely impact the ability of the Agency to pay debt service on the Bonds and all Parity Debt. For a further discussion of the SERAF Payment see "RISK FACTORS – State Budget Deficit; ERAF; SERAF".

### **SERAF Housing Loan**

Pursuant to Section 33690(c) of the Redevelopment Law, the Agency borrowed funds (the "SERAF Housing Loan") from the Low and Moderate Income Housing Fund of the Agency (the "Housing Fund") to make the payment on May 10, 2010 in the amount of \$7,906,610 and on May 10, 2011 in the amount of \$1,626,274 required by Section 33690(a) of the Redevelopment Law (collectively, the "SERAF Payment"). Section 33690(c) of the Redevelopment Law requires that the Agency repay the SERAF Housing Loan to the Housing Fund on or before June 30, 2015. Section 33690(a) of the Redevelopment Law is, as of the date hereof, the subject of litigation to determine its validity under the State Constitution and laws of the State. If Section 33690(a) of the Redevelopment Law is determined to be valid, then the Agency has covenanted in the Indenture as follows: (i) the Agency shall repay timely the SERAF Housing Loan to the Housing Fund in a manner that does not adversely impact the ability of the Agency to pay debt service on the Bonds and all Parity Debt or, in the alternative, (ii) in the event the Agency does not timely repay the SERAF Housing Loan to the Housing Fund, the Agency shall make the increased deposits of taxes into the Housing Fund required by Section 33690(c) of the Redevelopment Law in a manner that does not adversely impact the ability of the Agency to pay debt service on the Bonds and all Parity Debt. In the event Section 33690(a) of the Redevelopment Law is judicially determined to be invalid, then the Agency shall reimburse the Housing Fund as may be appropriate under applicable law in a manner that does not adversely impact the ability of the Agency to pay debt service on the Bonds and all Parity Debt. For a further discussion of the SERAF Payment see "RISK FACTORS – State Budget Deficit; ERAF; SERAF".

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

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

Effective September 30, 1980, the California Legislature added Section 33678 to the Redevelopment Law which provided that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by such agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIII B, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State of California, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions, *Brown v. Community Redevelopment Agency of the City of Santa Ana* and *Bell Community Redevelopment Agency v. Woosley*. The

plaintiff in *Brown v. Community Redevelopment Agency of the City of Santa Ana* petitioned the California Supreme Court for a hearing of this case. The California Supreme Court formally denied the petition and therefore the earlier court decisions are now final and binding. On the basis of these court decisions, the Agency has not adopted an appropriations limit.

## **RISK FACTORS**

The following section describes certain risk factors affecting the payment and security of the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

### **Reduction in Taxable Value - Economic Factors and Property Damage**

Tax Increment 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. Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors. See "STATUTORY LIMITATIONS ON TAX REVENUES— Property Tax Limitations: Article XIII A of the California Constitution" herein.

The reduction of taxable values of property in the Project Area due to economic or other factors beyond the Agency's control, such as a relocation out of the Project Area by one or more major property owners, or the complete or partial destruction of such property caused by, among other events, an earthquake or other natural disaster, could cause a reduction in the Tax Revenues. In addition, sale of property to a nonprofit corporation or purchase or condemnation of property by a governmental agency would remove such property from the tax rolls. See "THE GARDEN GROVE COMMUNITY DEVELOPMENT PROJECT" for a description of the largest assessed properties within the Project Area.

See also the section entitled "THE GARDEN GROVE COMMUNITY DEVELOPMENT PROJECT – Appeals to Assessed Values" for a discussion of recent assessed value reductions initiated by the Orange County Assessor under Proposition 8.

[add discussion of change in Project Area as areas drop off in later years]

### **Recent Downturn in Residential Values**

The number of residential parcels on which Notices of Default or Notices of Trustee's Sale have been filed or are Lender owned total 2.7% of all residential parcels within the City. The City is located within a seven separate ZIP Codes which also include areas of unincorporated Orange County. The Fiscal Consultant is unable to determine how many of these properties are located within the Project Area or that are located within the city limits, and has no information on any possible commercial or industrial foreclosures or bank owned property. It is very likely that some commercial centers within the Project Area are experiencing

vacancies. It is unclear if or how these vacancies may impact the Project Area assessed values in future years.

Anticipated revenues could be adjusted as a result of unidentified assessment appeal refunds, other Assessor corrections discussed previously, or unanticipated increases or decreases in property tax values. See "APPENDIX A – FISCAL CONSULTANT'S REPORT – II. Redevelopment Project Assessed Values – Residential Real Estate Values."

### **Reduction in Inflation Rate**

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%.

Until 2009-10, since Article XIII A was approved, the annual adjustment for inflation had fallen below the 2% limitation five 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%; and in fiscal year 2004-05, 1.867%. However, the inflationary growth rate will be a negative -0.237% for 2010-11. For purposes of the projections shown on Table 7 herein, the Fiscal Consultant has used this negative growth rate for 2010-11. See "APPENDIX A – FISCAL CONSULTANT'S REPORT – Section IV A" for a detailed discussion of the inflation rate set by the State Board of Equalization. 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.

### **Real Estate and Development Risks**

The Agency's ability to make payments on the Bonds will in large measure depend on the continued economic strength of the Project Area. The market for real estate in the Project Area will be subject to all the risks generally associated with the local and regional economy. Projected development within the Project Area may be subject to unexpected delays, disruptions and changes. Real estate development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Project Area could be adversely affected by future governmental policies, including governmental policies to restrict or control development. If projected development in the Project Area is delayed or halted, the economy of the Project Area could be affected causing a reduction of the Tax Revenues. In addition, if there is a decline in the general economy of the Project Area, the owners of property within the Project Area may be less able or less willing to make timely payments of property taxes causing a delay or stoppage of the Tax Revenues received by the Agency from the Project Area. In addition, the insolvency or bankruptcy of one or more large owners of property within the Project Area could delay or impair the receipt of Tax Increment by the Agency.



## Levy and Collection of Taxes

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. See "STATUTORY LIMITATIONS ON TAX REVENUES - Property Tax Collection Procedures" herein.

## State Budget Deficit; ERAF; SERAF

**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 \$7,906,601 and the Agency has preliminarily estimated that the SERAF Payment will be the amount of \$1,626,274 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 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 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 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 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 Tax Revenues for the Bonds and other uses, the manner of application of 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 will prevent the proposed actions in the RDA Provisions from adversely affecting the validity of the Bonds or the Agency's pledge of 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.

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.

***Proposed Legislation Eliminating Redevelopment Agencies.*** In his proposed budget, Governor Brown included a provision that would eliminate all redevelopment agencies in California starting on July 1, 2011. Draft legislation implementing this proposal was released by the Department of Finance of the State on February 23, 2011 (the "**Proposed Legislation**"). The Proposed Legislation has not been formally introduced at this point, but the Agency expects it will be introduced and taken up by the budget conference committee within the next week. It appears that the normal process of hearings in policy committees and the attendant opportunity for amendment and refinement of the Proposed Legislation will not be followed, although the budget conference committee would have wide latitude to amend the Proposed Legislation. Accordingly, no assurance can be given whether or not the Proposed Legislation will be enacted in its present form, or at all.

The Proposed Legislation is styled as an urgency measure, which requires a two-thirds vote of each house of the Legislature for passage, and which would become effective immediately upon passage and upon the signature of the Governor. It is possible that, if the Proposed 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 Proposed Legislation makes it clear that its provisions would not be retroactive, but would rather become effective as of the date of enactment.

The Proposed 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."

Among the changes in the Proposed Legislation is a lengthening of the statute of limitations to challenge various actions by the Agency taken after January 1, 2011, including the issuance of the Bonds, from 60 days to three years. While the Agency does not believe, based on the advice of Bond Counsel, that 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, due to the heightened scrutiny that may occur with respect to redevelopment agency activities that occur after January 1, 2011, there could be an increased risk of a challenge and any such challenge could affect the market price of the Bonds.

The Proposed Legislation implements the above purposes through a complex series of provisions, and appears to contain several inconsistencies and drafting problems which will likely require revision. The Agency cannot predict what changes may be made to the Proposed Legislation or whether the Proposed Legislation in any form will be adopted.

The full text of the Proposed Legislation may be obtained from the State of California Department of Finance at the following web link:

[http://www.dof.ca.gov/budgeting/trailer\\_bill\\_language/financial\\_research\\_and\\_local\\_government/documents/502%20RDA%20Legislation%202-23p.docx](http://www.dof.ca.gov/budgeting/trailer_bill_language/financial_research_and_local_government/documents/502%20RDA%20Legislation%202-23p.docx).

The link to the Proposed Legislation is provided for convenience and is not a part of nor incorporated into this Official Statement.

Two redevelopment bills, AB 26X and AB 27X passed both houses as part of the budget package on June 15, 2011; however because Governor Brown vetoed the main budget bills, it remains unclear whether the legislative leadership will bring the bills back to the floor. AB 27X requires cities and redevelopment agencies to make \$1.7 billion in payments to local schools in fiscal year 2011-12 and \$400 million in payments to schools and special districts in fiscal year 2012-13 and beyond, from any source of funds, including redevelopment funds. If necessary, a redevelopment agency can suspend all or a portion of its 2011-12 redevelopment funds for housing in order to repay the city or county; in fiscal year 2012-13 and beyond, redevelopment funds for housing may not be used. AB26X eliminates the redevelopment agency of any city/county that doesn't make the above payments to schools and special districts.

## **Investment Risk**

The Reserve Account and all funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See Appendix D attached hereto for a summary of the definition of Permitted Investments. The Redevelopment Fund, into which a portion of the proceeds of the Bonds will be deposited, may be invested by the Agency in any investment authorized by law. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held by the Agency or under the Indenture could have a material adverse affect on the security for the Bonds.

Further, the Agency cannot predict the effects on the receipt of Tax Increment if the County or the City were to suffer significant losses in their portfolio of investments or if the County or the City were to become insolvent or declare bankruptcy. See "Bankruptcy" below.

## **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 F - "FORM OF OPINION OF BOND COUNSEL" attached hereto.

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

The Redevelopment Law currently requires that, except under certain circumstances, redevelopment agencies set aside 20% of all gross Tax Increment derived from redevelopment project areas into a low and moderate income housing fund, to be used for the purpose of increasing, improving and/or preserving the community's supply of low and moderate income housing. The provisions of the Redevelopment Law regarding the funding of low and moderate and income housing funds have been frequently amended since their original adoption. In addition, the interpretations of these laws by the California Attorney General and agency counsels throughout the State have at times been subject to variation and change. While the Agency is of the opinion that it has been in compliance with the provisions of the Redevelopment Law regarding its Low and Moderate Income Housing Fund, there can be no assurance as to whether a claim challenging the Agency's practices in this area might be filed. See "STATUTORY LIMITATIONS ON TAX REVENUES -- Low and Moderate Income Housing" herein.

## **Change in Law**

In general, there can be no assurance that the California electorate will not at some future time adopt initiatives or that the Legislature will not enact legislation that will amend the Redevelopment Law or other laws or the Constitution of the State of California resulting in a reduction of Tax Increment. If any such subsequent initiative or legislation would impair the



Agency's ability to make payments on the Bonds, such initiative or legislation may be subject to legal challenge. See "STATUTORY LIMITATIONS ON TAX REVENUES" herein.

### **Assumptions and Projections**

To estimate the total Tax 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, the percentage of taxes collected and the likelihood of appeals. The Agency believes these assumptions to be reasonable, but to the extent that the payment of any revenues that constitute Tax Increment is less than such assumptions, the total Tax Increment available will, in all likelihood, be less than those projected herein.

### **Risk of Earthquake**

California is subject to periodic earthquake activity. If an earthquake were to substantially damage or destroy taxable property within the Project Area, the assessed valuation of such property would be reduced. Such a reduction of assessed valuations could result in a reduction of the Tax Revenues that secure the Bonds. [update]

## **STATUTORY LIMITATIONS ON TAX REVENUES**

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

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

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

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

provisions of Proposition 60.

### **Implementing Legislation**

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

The apportionment of property taxes in fiscal years after fiscal year 1978-79 has been revised pursuant to Statutes of 1979, Chapter 282 which provides relief funds from State moneys beginning in fiscal year 1978-79 and is designed to provide a permanent system for sharing State taxes and budget surplus funds with local agencies. Under Chapter 282, cities and counties receive about one-third more of the remaining property tax revenues collected under Proposition 13 instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief. Chapter 282 does not affect the derivation of the base levy (\$4.00 per \$100 assessed valuation) and the bonded debt tax rate.

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

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

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

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

## Property Tax Collection Procedures

**Classifications.** In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor.

The secured classification includes property on which any property tax levied by the County becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over all other liens on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against the taxes on unsecured property, but may become a lien on certain other property owned by the taxpayer.

**Collections.** The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts and an order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent. A 10 percent penalty also applies to delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1 1/2 percent per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

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

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

**Property Tax Administration Costs.** In 1990, the Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions on a prorated basis. It has been the practice of most California counties, including Orange County, to reduce an agency's tax increment or bill an agency for their *pro rata* share of property tax administration costs. The amount deducted by the County from fiscal year 2009-10 tax increment revenues allocable to the Project Area was \$213,649.

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

An initiative to amend the California Constitution entitled "Property Tax Revenues of Redevelopment Agencies" was approved by California voters at the November 8, 1988 general election. Under prior law, a redevelopment agency using tax increment revenue received additional property tax revenue whenever a local government increases its property tax rate to pay off its general obligation bonds. This initiative amended the California Constitution to allow the California Legislature to prohibit redevelopment agencies from receiving any of the property tax revenue raised by increased property tax rates imposed by local governments to make payments on their bonded indebtedness. The initiative only applies to tax rates levied to finance bonds approved by the voters on or after January 1, 1989. The Agency receives no general obligation tax overrides.

## **THE CITY OF GARDEN GROVE AND COUNTY OF ORANGE**

The Project Area is located within the City. For general information concerning the City and the County, see APPENDIX C - "GENERAL INFORMATION ABOUT THE CITY OF GARDEN GROVE AND COUNTY OF ORANGE" attached hereto.

## **LITIGATION**

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

## **RATING**

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies ("**Standard & Poor's**"), Inc. is expected to assign its municipal bond rating of "\_\_\_" to the Bonds. Such rating reflects only the views of Standard & Poor's and an explanation of the significance of such rating and any rating on any of the Agency's outstanding obligations may be obtained only from such rating agencies.

There is no assurance that such rating will continue for any given period or that it will not be revised downward or withdrawn entirely by Standard & Poor's, if in its judgment, circumstances so warrant. The Agency (other than as provided in the Continuing Disclosure Certificate), undertakes no responsibility either to notify the owners of the Bonds of any revision or withdrawal of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial

decisions, interest and original issue discount on the Series A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest and original issue discount on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum taxable liability of such corporations.

The difference between the issue price of a 2011 Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2011 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest and original issue discount on the Bonds is based upon certain representations of fact and certifications made by the Agency, the Underwriter and others and is subject to the condition that the Agency complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest and original issue discount on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest and original issue discount on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Agency has have covenanted to comply with all such requirements.

Should the interest and original issue discount on the Series A Bonds become includable in gross income for federal income tax purposes, the Series A Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Indenture.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of the issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a Bond and Bond Counsel expresses no opinion with respect thereto.

Although Bond Counsel has rendered an opinion that interest and original issue discount on the Series A Bonds is excluded from gross income for federal income tax purposes provided that the Agency continues to comply with certain requirements of the Code, the accrual or receipt of interest and original issue discount on the Series A Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series A Bonds, the Agency has covenanted in the Indenture to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal

Revenue Code of 1986, as amended, relative to arbitrage and avoidance of characterization as private activity bonds, among other things. The interest on the Series A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series A Bonds, as a result of acts or omissions of the Agency in violation of covenants in the Indenture. Should such an event of taxability occur, the Series A Bonds are not subject to acceleration, redemption or any increase in interest rates and will remain Outstanding until maturity or until redeemed under one of the redemptive provisions contained in the Indenture.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series A Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). Congress or the IRS might change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest and original issue discount on the Bonds or their market value. In many instances, the audit will be directed toward the issuer of the bonds (with no participation rights by bondholders). The Agency (and Bond Counsel) are not obligated to defend the tax-exempt status of interest and original issue discount on the Series A Bonds.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

### CERTAIN LEGAL MATTERS

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the Bonds and regarding certain tax matters with respect to the Bonds, will be made available to purchasers at the time of original delivery of the Bonds. The proposed form of the legal opinion of Bond Counsel is attached hereto as Appendix F. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Disclosure Counsel to the Agency. Certain legal matters will be passed upon for the Agency by \_\_\_\_\_. Payment of the fees of Bond Counsel and Disclosure Counsel is contingent upon sale and delivery of the Bonds.

### UNDERWRITING

The Bonds will be sold to Stone & Youngberg LLC as Underwriter (the "**Underwriter**") under a bond purchase agreement between the Agency and the Underwriter (the "**Purchase Contract**"), pursuant to which the Underwriter will agree to purchase all of the Bonds for an aggregate purchase price of \$\_\_\_\_\_ (being an amount equal to the principal amount of

the Bonds (\$\_\_\_\_\_), less an underwriter's discount of \$\_\_\_\_\_ and less an original issue discount of \$\_\_\_\_\_. In addition, if approved by the City Council. The Underwriter is committed to purchase all of the Bonds if any are purchased.

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

#### **MISCELLANEOUS**

All references herein to the Bonds and the Indenture, are brief outlines of certain provisions thereof. Such outlines do not purport to be complete statements of any or all of such provisions and reference is hereby made to such documents on file with the agency for further information in connection therewith.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

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

**GARDEN GROVE AGENCY FOR  
COMMUNITY DEVELOPMENT**

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

**APPENDIX A**  
**FISCAL CONSULTANT'S REPORT**



**APPENDIX B**

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

## APPENDIX C

### GENERAL INFORMATION ABOUT THE CITY OF GARDEN GROVE AND COUNTY OF ORANGE

*The following information concerning the City of Garden Grove and the County of Orange is included only for the purpose of supplying general information regarding the area of the District. The Bonds are not a debt of the City, the County, the State or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.*

#### General Description and Background

The County of Orange, California (the "County") encompasses 798 square miles in Southern California, bordered on the north by Los Angeles and San Bernardino counties, on the east by Riverside County, on the southeast by San Diego County and on the west and southwest by the Pacific Ocean. There are 34 cities located within the County. The County is the third largest county in the State and the sixth largest county in the nation.

Approximately 42 miles of ocean shoreline provide many beaches, marinas and other recreational areas for use by residents and visitors. The climate in the County is mild, with an average annual rainfall of 13 inches.

The County is governed by a five-member Board of Supervisors (the "Board") elected by districts to four-year terms by the citizens of the County. At the beginning of each year, the Board selects a Chairman and a Vice Chairman.

#### Population

The following sets forth population estimates for Garden Grove, the County and the State as of January 1 for the years 2007 to 2011:

#### CITY OF GARDEN GROVE, ORANGE COUNTY AND STATE OF CALIFORNIA Estimated Population

<u>Year</u> <u>(January 1)</u>	<u>City of</u> <u>Garden Grove</u>	<u>Orange</u> <u>County</u>	<u>State of</u> <u>California</u>
2007	171,366	3,077,656	37,463,609
2008	172,159	3,104,046	37,871,509
2009	174,498	3,134,858	38,255,508
2010	170,773	3,008,855	37,223,900
2011	171,327	3,029,859	37,510,766

Source: State of California Department of Finance, Demographic Research Unit.

#### Commerce

The valuation of taxable transactions in the City of Garden Grove, as well as the County as a whole, is presented in the following tables:

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 County during the past five years in which data is available is shown in the following table.

Total taxable sales reported during the first quarter of calendar year 2010 in the City of Garden Grove were reported to be \$342,757,000, a 6.7% increase over the total taxable sales of \$321,130,000 reported during the first quarter of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City of Garden Grove is presented in the following table. Annual figures are not yet available for 2010.

**CITY OF GARDEN GROVE**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of**  
**Taxable Transactions (shown in thousands of dollars)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2005	1,976	1,315,316	4,052	1,788,182
2006	1,943	1,299,800	4,019	1,789,812
2007	1,947	1,480,098	3,933	1,751,333
2008	2,007	1,383,601	3,950	1,642,666
2009 <sup>(1)</sup>	2,141	1,155,616	3,524	1,361,395

<sup>(1)</sup> Data for Retail Stores is not comparable to prior years. "Retail" category now includes "Food Services".  
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales reported during the first quarter of calendar year 2010 in the County of Orange were reported to be \$10,800,790,000, an 0.3% increase over the total taxable sales of \$10,768,437,000 reported during the first quarter of calendar year 2009. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County of Orange is presented in the following table. Annual figures are not yet available for 2010.

**COUNTY OF ORANGE**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of**  
**Taxable Transactions (shown in thousands of dollars)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2004	43,310	35,441,953	101,508	51,682,059
2005	45,402	37,672,834	102,858	55,063,246
2006	45,264	39,074,451	102,359	57,202,747
2007	44,093	38,988,227	99,088	57,293,471
2008	45,705	35,768,595	97,612	53,606,829
2009 <sup>(1)</sup>	56,259	31,162,619	90,231	45,712,784

<sup>(1)</sup> Data for Retail Stores is not comparable to prior years. "Retail" category now includes "Food Services".  
Source: State Board of Equalization.

## Employment and Industry

Garden Grove is included in the Orange County Metropolitan Division. The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2005 through 2009.

The unemployment rate in the Orange County was 9.2 percent in January 2011, up from a revised 9.0 percent in December 2010, and below the year-ago estimate of 10.0 percent. This compares with an unadjusted unemployment rate of 12.7 percent for California and 9.8 percent for the nation during the same period.

### ORANGE COUNTY Civilian Labor Force, Employment and Unemployment (Annual Averages)

	2006	2007	2008	2009	2010
Civilian Labor Force <sup>(1)</sup>	1,607,000	1,615,900	1,625,300	1,594,200	1,580,100
Employment	1,552,400	1,553,400	1,539,800	1,451,000	1,428,900
Unemployment	54,600	62,600	85,500	143,200	151,200
Unemployment Rate	3.4%	3.9%	5.3%	9.0%	9.6%
Wage and Salary Employment: <sup>(2)</sup>					3,800
Agriculture	5,300	5,000	4,600	3,900	500
Natural Resources and Mining	600	600	600	500	67,100
Construction	106,600	103,100	91,200	73,600	150,200
Manufacturing	182,700	180,400	174,100	154,500	77,400
Wholesale Trade	83,700	86,900	86,700	80,100	26,700
Retail Trade	160,800	161,200	155,600	141,900	25,000
Transportation, Warehousing and Utilities	28,200	28,900	29,300	27,900	69,100
Information	31,900	31,200	30,100	27,400	34,500
Finance and Insurance	99,000	89,100	76,100	71,600	242,800
Real Estate and Rental and Leasing	39,100	38,600	37,000	34,100	156,000
Professional and Business Services	274,500	273,300	266,600	239,000	168,700
Educational and Health Services	137,700	142,600	150,700	151,100	42,400
Leisure and Hospitality	169,600	172,900	176,400	169,700	12,400
Other Services	47,700	47,400	46,500	42,800	27,300
Federal Government	11,400	11,600	11,700	11,700	112,800
State Government	27,400	27,700	28,000	28,100	1,356,700
Local Government	117,900	120,100	121,000	117,500	1,580,100
Total, All Industries <sup>(3)</sup>	1,524,300	1,520,500	1,486,200	1,375,400	1,428,900

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

## Major Employers

The following table lists the top employers in the County, listed alphabetically.

### ORANGE COUNTY MAJOR EMPLOYERS 2011

Employer Name	Location	Industry
Allergan Inc	Irvine	Drug Millers (Mfrs)
Anaheim City Hall	Anaheim	City Government-Executive Offices
Blogtagon Social Media	Fountain Valley	Multimedia (Mfrs)
Boeing Co	Seal Beach	Aerospace Industries (Mfrs)
Broadcom Corp	Irvine	Semiconductors & Related Devices (Mfrs)
California State-Fullerton	Fullerton	Schools-Universities & Colleges Academic
Edwards Lifesciences Corp	Irvine	Physicians & Surgeons Equip & Supls-Mfrs
Fairview Developmental Ctr	Costa Mesa	Residential Care Homes
First American Title Ins Co	Santa Ana	Title Companies
Fountain Valley Regl Hosp	Fountain Valley	Hospitals
Hoag Hospital	Newport Beach	Hospitals
Jones Lang La Salle	Brea	Real Estate Management
Mission Hospital	Mission Viejo	Hospitals
Pacifi Care Health Systems	Cypress	Health Plans
Quest Diagnostics	San Juan Capistrano	Laboratories-Medical
Quiksilver Eyeware Usa	Huntington Beach	Optical Goods-Retail
Saddleback Health Information	Laguna Hills	Physicians & Surgeons Information Bureau
Saddleback Memorial Med Ctr	Laguna Hills	Hospitals
St John Knits Intl Inc	Irvine	Women's Apparel-Retail
St Jude Medical Ctr	Brea	Physicians & Surgeons Equip & Supls-Whls
St Jude Medical Ctr	Fullerton	Hospitals
Staffpay Inc	Irvine	Employment Contractors-Temporary Help
Tri Zetto Group	Newport Beach	Information Technology Services
Uc Irvine Healthcare	Orange	Hospitals
University Of Ca-Irvine	Irvine	Schools-Universities & Colleges Academic

Source: State of California Employment Development Department, compiled from America's Labor Market Information System (ALMIS) Employer Database, 2011 1st Edition.

## Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in Garden Grove and the County.

### CITY OF GARDEN GROVE BUILDING PERMIT VALUATION (Valuation in Thousands of Dollars)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Permit Valuation</u>					
New Single-family	\$8,656.7	\$5,983.0	\$3,026.0	\$2,135.0	\$11,264.5
New Multi-family	33,560.0	17,836.0	973.0	2,504.0	5,512.0
Res. Alterations/Additions	<u>18,887.0</u>	<u>14,689.1</u>	<u>10,300.9</u>	<u>9,894.8</u>	<u>8,122.1</u>
Total Residential	61,103.7	38,508.1	14,299.9	14,533.8	24,898.6
New Commercial	39,159.1	64,592.0	2,050.0	0.0	0.0
New Industrial	16,541.0	0.0	0.0	0.0	0.0
New Other	9,101.7	3,330.2	1,811.6	1,426.1	1,181.1
Com. Alterations/Additions	<u>14,049.4</u>	<u>9,351.1</u>	<u>6,599.0</u>	<u>10,278.9</u>	<u>8,634.7</u>
Total Nonresidential	78,851.2	77,273.3	10,460.5	11,705.0	9,815.9
 <u>New Dwelling Units</u>					
Single Family	46	22	13	5	62
Multiple Family	<u>225</u>	<u>130</u>	<u>8</u>	<u>14</u>	<u>32</u>
TOTAL	271	152	21	19	94

**ORANGE COUNTY  
BUILDING PERMIT VALUATION  
(Valuation in Thousands of Dollars)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Permit Valuation</u>					
New Single-family	\$1,084,050.2	\$709,395.1	\$475,736.0	\$437,832.0	\$492,529.5
New Multi-family	718,075.7	638,458.8	203,618.3	109,750.2	208,046.8
Res. Alterations/Additions	<u>514,821.9</u>	<u>444,414.9</u>	<u>358,355.5</u>	<u>307,610.4</u>	<u>328,830.0</u>
Total Residential	2,316,947.8	1,792,268.7	1,037,709.8	855,192.6	1,029,406.2
New Commercial	1,273,026.9	908,627.0	424,041.7	153,465.6	264,898.3
New Industrial	90,908.2	51,911.1	14,174.4	0.0	23,000.0
New Other	316,699.0	287,582.3	184,620.8	150,751.4	116,813.1
Com. Alterations/Additions	<u>719,929.8</u>	<u>757,076.5</u>	<u>816,284.5</u>	<u>648,267.8</u>	<u>747,216.7</u>
Total Nonresidential	2,400,563.9	2,005,196.8	1,439,121.4	952,484.7	1,151,928.1
<u>New Dwelling Units</u>					
Single Family	3,735	2,182	1,295	1,376	1,553
Multiple Family	<u>4,636</u>	<u>4,890</u>	<u>1,864</u>	<u>824</u>	<u>1,538</u>
TOTAL	8,371	7,072	3,159	2,200	3,091

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

### Effective Buying Income

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



The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2006 through 2010.

**COUNTY OF ORANGE**  
**Effective Buying Income**  
**2006 through 2010**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2006	City of Garden Grove	\$ 2,386,625	\$45,672
	Orange County	71,826,783	55,370
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Garden Grove	\$ 2,572,615	\$48,314
	Orange County	77,164,985	58,727
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Garden Grove	\$ 2,587,523	\$48,591
	Orange County	78,347,278	58,979
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Garden Grove	\$ 2,689,805	\$49,052
	Orange County	79,478,835	61,470
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Garden Grove	\$ 2,510,085	\$46,265
	Orange County	75,063,557	57,849
	California	801,393,027	47,177
	United States	6,365,020,076	41,368

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

### **County Transportation Systems**

The County is situated in the most heavily populated area in California and has access to excellent roads, rail, air and sea transportation. The Santa Ana Freeway (Interstate 5) provides direct access to downtown Los Angeles and connects with the San Diego Freeway (Interstate 405) southeast of the City of Santa Ana providing a direct link with San Diego. The Garden Grove Freeway (State 22) and the Riverside Freeway (State 91) provide east-west transportation, linking the San Diego Freeway, Santa Ana Freeway and the Newport Freeway (State 55). The Newport Freeway provides access to certain beach communities. Both Placentia and Yorba Linda are served by the Riverside Freeway (State 91) and the Orange Freeway (State 57).

Drivers in the County have access to two toll road systems administered by the Transportation Corridor Agencies. The San Joaquin Toll Road (73) runs from Costa Mesa to Mission Viejo and connects to the 405 and 5 Freeways. The Eastern and Foothill Toll Roads

(241, 261 and 133) connect the County to the 91 Freeway to the north and the 5 Freeway, City of Irvine and other South County cities, as well as Laguna Canyon Road. The Transportation Corridor Agencies are planning to extend the 241 Toll Road to connect to the 5 Freeway near San Clemente.

Rail freight service is provided by the Burlington Northern Santa Fe Railway and the Union Pacific Railroad Company. Amtrak provides passenger service to San Diego to the south, Riverside and San Bernardino Counties to the east, and Los Angeles and Santa Barbara to the north. Metro Link provides passenger service to San Bernardino and Riverside counties to the east, Oceanside to the south and Los Angeles County to the north. Bus service is provided by Greyhound Bus Lines. The Orange County Transportation Authority provides bus service between most cities in the County. Most interstate common carrier truck lines operating in California serve the County.

The John Wayne Airport is located in the County's unincorporated area adjacent to Santa Ana, Costa Mesa, Irvine and Newport Beach. Major airlines, including American, Alaska, Delta, America West, Continental, Northwest, U.S. Airways, Southwest, United, Aloha and TWA, fly from the airport to major cities throughout the country. In 2008, approximately 9 million passengers were served at John Wayne Airport.

## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

## APPENDIX E

### THE BOOK-ENTRY SYSTEM

*The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in 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 securities (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 the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other 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 transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security 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 the 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest 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 Issuer or 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 nor its nominee, Agent, or 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 Issuer or 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 securities depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. 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 Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

**APPENDIX F**  
**FORM OF OPINION OF BOND COUNSEL**

## APPENDIX G

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ \_\_\_\_\_  
**Garden Grove Agency for Community Development**  
**2011 Subordinate Tax Allocation Bonds**  
**(Garden Grove Community Project)**  
**Series A**

\$ \_\_\_\_\_  
**Garden Grove Agency for Community Development**  
**2011 Subordinate Tax Allocation Bonds**  
**(Garden Grove Community Project)**  
**Series B (Taxable)**

### CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Garden Grove Agency for Community Development (the "Agency") in connection with the issuance of the Agency's \$ \_\_\_\_\_ 2011 Subordinate Tax Allocation bonds (Garden Grove Community Project) Series A and \$ \_\_\_\_\_ 2011 Subordinate Tax Allocation Bonds (Garden Grove Community Project) Series B (Taxable) (collectively, the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2011 (the "Indenture"), by and between the Agency and J.P. Morgan Trust Company, 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 Underwriters 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 mean the Agency, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency a written acceptance of such designation.

"*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 pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

(i) the total amount of assessed valuations of properties within the Project Area for the most recent completed Fiscal Year, showing the total secured value and the total unsecured value and to the extent necessary to make the foregoing specifically required information, in light of the circumstances in which they were made, not misleading, information on assessment appeals;

(ii) the total Tax Revenues allocated to the Agency from the Project Area for the most recent completed Fiscal Year, including gross tax increment revenues and appropriate deductions for payments under the tax-sharing agreements, deposits into the Agency's low and moderate income housing fund, and any other deductions required to be made to compute Tax Revenues;

(iii) the ten (10) largest assesses of taxable property within the Project Area, indicating taxpayer, type of business, assessed valuation, percent of Project Area assessed valuation and percentage represented by aggregate assessed value of the top ten secured property taxpayers, together with information on appeals by such ten (10) taxpayers; and

(iv) the percent by which annual Tax Revenues have provided coverage for Maximum Annual Debt Service for the most current completed Fiscal Year.

(v) description of any additional indebtedness payable from Tax Revenues

(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 the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Agency shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, 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. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. 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 8. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Agency.

Section 9. 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 herein, 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 pursuant to 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 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2011

GARDEN GROVE AGENCY FOR  
COMMUNITY DEVELOPMENT

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

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Garden Grove Agency for Community Development

Name of Bond Issue: \$\_\_\_\_\_ 2011 Subordinate Tax Allocation Bonds (Garden Grove Community Project) Series A

\$\_\_\_\_\_ 2011 Subordinate Tax Allocation Bonds (Garden Grove Community Project) Series B (Taxable)

Date of Issuance: \_\_\_\_\_, 2011

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture of Trust, dated as of June 1, 2011, between the Agency and J.P. Morgan Trust Company, National Association. The Agency anticipates that the Annual Report will be filed by \_\_\_\_\_.

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

GARDEN GROVE AGENCY FOR  
COMMUNITY DEVELOPMENT

By \_\_\_\_\_