

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2005A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Series 2005AMT Bond for any period that such Series 2005AMT Bond is held by a "substantial user" of the facilities financed by the Series 2005AMT Bonds or by a "related person" within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the Series 2005A-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel observes, however, that interest on the Series 2005AMT Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that interest on the Series 2005A Bonds is exempt from State of California personal income taxes. Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2005A Bonds. See "TAX MATTERS" herein.*

## REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO

\$16,000,000

### GILLESPIE FIELD PROJECT

Revenue Refunding Bonds,  
Series 2005A

consisting of

\$9,225,000  
Series 2005A-1

\$6,775,000  
Series 2005AMT

Dated: Date of Delivery

Due: December 1, as shown on inside cover

**THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY, IT IS NOT A SUMMARY OF ALL OF THE PROVISIONS OF THE SERIES 2005A BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.**

The Series 2005A Bonds will be issued in denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof as shown on the inside cover page of this Official Statement. Interest on the Series 2005A Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2006.

The Series 2005A Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Series 2005A Bonds will not receive physical certificates representing their interests in the Series 2005A Bonds purchased. DTC will act as securities depository for the Series 2005A Bonds. The principal of and interest on the Series 2005A Bonds are payable directly to DTC by The Bank of New York Trust Company, N.A., Los Angeles, California, as Trustee. Upon receipt of payments of such principal and interest, DTC is obligated to remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Series 2005A Bonds.

The Series 2005A Bonds are being issued by the Redevelopment Agency of the County of San Diego (the "Agency"): (1) to refund all of the Agency's outstanding Series 1995 Bonds (as defined herein); (2) to repay loans from the County's Airport Enterprise Fund, the proceeds from which the Agency used to finance redevelopment activities in the Gillespie Field Redevelopment Project (the "Project"); (3) to fund a debt service reserve account; and (4) to pay costs of issuance related to the Series 2005A Bonds. See "USE OF PROCEEDS" herein.

The Series 2005A Bonds are subject to optional and mandatory redemption as described herein.

The Series 2005A Bonds are limited obligations of the Agency and are payable, as to interest thereon and principal thereof, exclusively from the Tax Revenues and Airport Fund Revenues (collectively referred to herein as "Combined Revenues"), and the Agency is not obligated to pay them except from the Combined Revenues. All of the Series 2005A Bonds are equally secured by a pledge of, and charge and lien upon, all of the Combined Revenues, and the Combined Revenues constitute a trust fund for the security and payment of the interest on and the principal of the Series 2005A Bonds. The Series 2005A Bonds are not a debt of the County of San Diego, the State of California or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable therefor, nor in any event will the Series 2005A Bonds be payable out of any funds or properties other than those of the Agency. The Series 2005A Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction, and neither the members of the Agency nor any persons executing the Series 2005A Bonds are liable personally on the Series 2005A Bonds by reason of their issuance. For a discussion of some of the risks associated with the purchase of the Series 2005A Bonds, see "RISK FACTORS" herein.

*Legal matters incident to the delivery of the Series 2005A Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel. As Bond Counsel, Orrick, Herrington & Sutcliffe LLP undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick, Herrington & Sutcliffe LLP will provide other legal services for the County as Disclosure Counsel. The Agency anticipates that the Series 2005A Bonds in book entry form will be available for delivery to DTC in New York, New York on or about December 22, 2005.*

## STONE & YOUNGBERG LLC

**SERIES 2005A BOND MATURITY SCHEDULE**

consisting of

**\$7,035,000 Serial Series 2005A-1 Bonds**  
**Base CUSIP†: 79740A**

<u>Maturity (December 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number†</u>	<u>Maturity (December 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number†</u>
2006	\$360,000	3.650%	3.650%	AQ 9	2014	\$430,000	4.875%	4.950%	AY 2
2007	320,000	3.750	3.750	AR 7	2015	455,000	5.000	5.050	AZ 9
2008	335,000	3.950	3.950	AS 5	2016	475,000	5.000	5.130	BA 3
2009	345,000	4.150	4.150	AT 3	2017	500,000	5.125	5.200	BB 1
2010	360,000	4.350	4.350	AU 0	2018	525,000	5.150	5.250	BC 9
2011	375,000	4.550	4.550	AV 8	2019	555,000	5.250	5.300	BD 7
2012	395,000	4.700	4.700	AW 6	2020	580,000	5.250	5.350	BE 5
2013	415,000	4.850	4.850	AX 4	2021	610,000	5.300	5.400	BF 2

\$2,190,000—5.400% Series 2005A-1 Term Bonds due December 1, 2025—Yield—5.450% CUSIP No. 79740A BG 0†

\$6,775,000—5.750% Series 2005AMT Term Bonds due December 1, 2032—Yield—5.750% CUSIP No. 79740A BH 8†

†CUSIP numbers have been assigned to this issue by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the beneficial owners of the Series 2005A Bonds. Neither the Agency, the County, nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth above.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**

Pam Slater-Price, *Chairwoman*  
Bill Horn, *Vice Chairman*  
Greg Cox  
Dianne Jacob  
Ron Roberts

**COUNTY/AGENCY STAFF**

Walter F. Ekard  
*Chief Administrative Officer and Executive Director, Redevelopment Agency*

Donald Steuer  
*Chief Financial Officer/Auditor & Controller  
and Auditor/Controller of the Agency*

John Sansone  
*County Counsel and General Counsel to the Agency*

Dan McAllister  
*Treasurer-Tax Collector and Treasurer of the Agency*

Gregory J. Smith  
*Assessor/Recorder/County Clerk*

John Snyder  
*Director, Department of Public Works*

Lawrence Watt  
*Deputy Director, Transportation*

Peter Drinkwater  
*Director, County Airports*

***Special Services***

The Bank of New York Trust Company, N.A.  
*Trustee*

The Bank of New York Trust Company, N.A.  
*Escrow Agent*

Orrick, Herrington & Sutcliffe LLP  
*Bond Counsel and Disclosure Counsel*

Rosenow Spevacek Group Inc.  
*Fiscal Consultant*

Grant Thornton LLP  
*Verification Agent*

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER OR SALE OF THE SERIES 2005A BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE AGENCY, THE COUNTY OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR WILL THERE BE ANY SALE OF THE SERIES 2005A BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER, SOLICITATION OR SALE. THE OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE SERIES 2005A BONDS.

**Statements contained in this Official Statement which involve time estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the Agency, the County, or other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Agency, the County or the Underwriter. 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, create any implication that there has been no change in the affairs of the Agency or the County since the date hereof.**

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2005A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005A 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 TO SELL THE SERIES 2005A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE SERIES 2005A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE SERIES 2005A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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# REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO GILLESPIE FIELD PROJECT



Flight Date: April 2004



**OFFICIAL STATEMENT**

**REDEVELOPMENT AGENCY OF THE  
COUNTY OF SAN DIEGO**

**\$16,000,000**  
**GILLESPIE FIELD PROJECT**  
**Revenue Refunding Bonds,**  
**Series 2005A**  
consisting of  
**\$9,225,000**                      **\$6,775,000**  
**Series 2005A-1**                      **Series 2005AMT**

**INTRODUCTORY STATEMENT**

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Redevelopment Agency of the County of San Diego (the "Agency") and its \$16,000,000 aggregate principal amount of Gillespie Field Project Revenue Refunding Bonds, Series 2005A, consisting of \$9,225,000 aggregate principal amount of Gillespie Field Project Revenue Refunding Bonds, Series 2005A-1 (the "Series 2005A-1 Bonds") and \$6,775,000 aggregate principal amount of Gillespie Field Project Revenue Refunding Bonds, Series 2005AMT (the "Series 2005AMT Bonds"). The Series 2005A-1 Bonds and the Series 2005AMT Bonds are collectively referred to in this Official Statement as the Series 2005A Bonds. As used herein, the term "Bonds" means the Series 2005A Bonds and any Additional Bonds then outstanding.

The Series 2005A Bonds are payable from and secured by Tax Revenues, as defined in the Indenture, dated as of December 1, 2005 (the "Indenture"), by and between the Agency and The Bank of New York Trust Company, N.A., as trustee (the "Trustee") and by certain Airport Fund Revenues, as defined in the Indenture. Tax Revenues and Airport Fund Revenues are collectively referred to herein as "Combined Revenues."

As used herein, the term "Tax Revenues" means, for each Fiscal Year, the taxes (including all payments, reimbursements and subventions, if any, specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations) eligible for allocation to the Agency pursuant to the Law in connection with the Project Area, excluding (a) amounts, if any, required to be deposited by the Agency in the Housing Fund and used for certain housing purposes, provided, however, that such amounts will not be excluded if and to the extent that the Agency makes such amounts available as Tax Revenues, (b) amounts required to be paid to certain school districts pursuant to the Settlement Agreement, (c) amounts paid to the Metropolitan Water District of Southern California and Grossmont Community College District and (d) amounts, if any, payable pursuant to Section 33607.5 of the Law but only to the extent such amounts are not subordinated to the payment of debt service on the Bonds. As used herein, the term "Airport Fund Revenues" means all amounts pledged by the County of San Diego (the "County") to the payment of the Bonds pursuant to the Second Supplemental Pledge Agreement, dated as of December 1, 2005 (the "Second Supplement"), among the County, the Agency and the Trustee. Capitalized terms used in this paragraph and not defined are defined below. See "SECURITY FOR THE SERIES 2005A BONDS" herein.

The Series 2005A Bonds are being issued by the Agency: (1) to refund all of the Agency's outstanding Series 1995 Bonds (as defined below); (2) to repay loans from the County's Airport Enterprise Fund, the proceeds from which the Agency used to finance redevelopment activities in the Gillespie Field Redevelopment Project Area (the "Project"); (3) to fund a debt service reserve account; and (4) to pay costs of issuance related to the Series 2005A Bonds. See "USE OF PROCEEDS" herein.

## **The Series 2005A Bonds**

The Series 2005A Bonds are being issued pursuant to the Constitution and the laws of the State of California (the “State”), including the California Community Redevelopment Law (Part 1, commencing with Section 33000 of Division 24 of the Health and Safety Code of the State (the “Redevelopment Law”) and in accordance with the Indenture. See “SECURITY FOR THE SERIES 2005A BONDS” herein.

## **The Agency and the Project Area**

*The Agency.* The Agency was formed on October 14, 1974 by County Ordinance No. 4393. Pursuant to the Redevelopment Law, the Board of Supervisors of the County designated itself as the governing board for the Agency. The Agency is a separate public body which plans and implements projects in accordance with the requirements of the Redevelopment Law. The Gillespie Field Redevelopment Project Area for which the Series 2005A Bonds are being issued is one of the Agency’s two redevelopment project areas.

*The Project Area.* The Redevelopment Plan for the Gillespie Field Redevelopment Project Area (the “Project Area”) was adopted by Ordinance No. 7399 (New Series) of the Board of Supervisors of the County on July 7, 1987 and by Ordinance No. 4036 of the El Cajon City Council on July 14, 1987. The Project Area is a contiguous area of about 746 acres and includes Gillespie Field Airport. The Project Area is south of the City of Santee and located in the northern portion of the City of El Cajon. Existing airport operations and fixed based operators occupy about 342 acres within the Project Area.

## **Pledge of Combined Revenues**

*Tax Allocation Financing.* Pursuant to the Law, a portion of all property tax revenues, including certain reimbursements by the State of California, collected by or for each taxing agency on any increase in the taxable value of certain property within each redevelopment project over that shown on the assessment rolls for the base year applicable to each such redevelopment project may be pledged to the repayment of indebtedness incurred by the Agency in connection with project redevelopment. Under the Indenture, the Agency has pledged tax increments to the payment of the principal of, premium, if any, and interest on the Series 2005A Bonds. See “SECURITY FOR THE SERIES 2005A BONDS—Pledge and Allocation of Taxes” herein.

Certain events, including any future decrease in the taxable valuation in the Project Area or in the applicable tax rates or increased delinquencies in the payment of property taxes within the Project Area may reduce tax increment allocated to and received by the Agency, and correspondingly may adversely impact the ability of the Agency to pay debt service on the Series 2005A Bonds. See “RISK FACTORS” herein.

*Airport Fund Revenues.* As discussed herein, the County has authorized the pledge of certain Airport Fund Revenues derived from the operation of the County’s Airport System (the “Airport System”) (as further described herein) to the payment of the principal of, premium, if any, and interest on the Series 2005A Bonds. The Airport System includes the eight airports owned and operated by the County. **The Airport System does not include San Diego International (Lindbergh), the main airport servicing the San Diego area.** The term Airport Fund Revenues is defined to mean all amounts pledged by the County to the payment of the Series 2005A Bonds pursuant to the Master Pledge Agreement (as defined herein) and the Second Supplement. See “SECURITY FOR THE SERIES 2005A BONDS—Pledge of Airport Fund Revenues” herein.

Certain events, including loss of lease revenues from the operation of the Airport System by the County or the inability to charge sufficient rates, fees and charges for the use of the Airport System may

reduce Airport Fund Revenues paid to the Agency, and correspondingly may adversely impact the ability of the Agency to pay debt service on the Series 2005A Bonds. See “RISK FACTORS” herein.

### **Continuing Disclosure**

The Agency has covenanted for the benefit of owners of the Series 2005A Bonds to provide, so long as the Series 2005A Bonds are outstanding, certain financial information and operating data relating to the Agency by not later than 270 days following the end of the Agency’s fiscal year (which is currently June 30), commencing March 31, 2007, for the 2005-06 Fiscal Year report (the “Annual Report”) and to provide notices of the occurrences of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The specific nature of the information to be contained in the Annual Report or the notices of material events by the Agency is set forth in APPENDIX F — “Form of Continuing Disclosure Agreement.”

The Agency agreed to provide certain annual financial information and operating data, including its financial statements, to certain information depositories with respect to each fiscal year in connection with the Series 1995 Bonds. The Agency did not provide financial statements with respect to Fiscal Years 2001-02 and 2002-03 when it filed its annual report on the required filing date, because the financial statements were not available by such date. The Agency filed notice of failure to provide required annual financial information as required by the Rule and subsequently provided to each repository its unaudited and audited financial statements with respect to these fiscal years.

### **Additional Information**

There follows in this Official Statement brief descriptions of the Series 2005A Bonds, the security for the Series 2005A Bonds, the Indenture, the Master Pledge Agreement, the Second Supplement, the Agency, the Project Area, the Airport Fund Revenues, the Airport System and certain other information relevant to the issuance of the Series 2005A Bonds. All references herein to the Indenture, the Master Pledge Agreement and the Second Supplement are qualified in their entirety by reference to the definitive forms thereof and all references to the Series 2005A Bonds are further qualified by references to the information with respect thereto contained in the Indenture. The Report of Rosenow Spevacek Group Inc., the Fiscal Consultant, regarding tax increment revenues is included in Appendix A (the “Fiscal Consultant’s Report”). The proposed form of the legal opinion for the Series 2005A Bonds is set forth in Appendix B. Certain information relating to DTC and the book-entry only system is included in Appendix C. Definitions and a summary of certain provisions of the Principal Legal Documents are included in Appendix D. Selected information regarding the County of San Diego is included in Appendix E. The proposed form of Continuing Disclosure Agreement is included in Appendix F. All capitalized terms used herein and not normally capitalized have the meanings assigned to them in the Indenture, unless otherwise stated in this Official Statement. 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. Copies of the Indenture, the Master Pledge Agreement and the Second Supplement, are available upon request of the Agency. The Agency’s address and telephone number for such purpose are as follows: Redevelopment Agency of the County of San Diego, 1600 Pacific Highway, Room 165, San Diego, CA 92101 attn: Lisa Keller-Chiodo; Telephone: (619) 685-2329.

## USE OF PROCEEDS

The Series 2005A Bonds are being issued by the Agency: (1) to refund all of the Agency’s outstanding Series 1995 Bonds (as defined below); (2) to repay loans from the County’s Airport Enterprise Fund, the proceeds from which the Agency used to finance redevelopment activities in the Project Area; (3) to fund a debt service reserve account; and (4) to pay costs of issuance related to the Series 2005A Bonds. A portion of the Series 2005A-1 Bond proceeds will be deposited in an escrow account and used to refinance redevelopment activities through the current refunding of all of the outstanding principal amount of the Agency’s Revenue Bonds, Series 1995 (Gillespie Field Project) (the “Series 1995 Bonds”). See “DEBT SERVICE ON THE SERIES 2005A BONDS—Plan of Refunding” below.

The estimated sources and uses of funds for the Series 2005A Bonds are as follows:

<b>ESTIMATED SOURCES AND USES OF FUNDS</b>	
<b>Sources of Funds:</b>	
Principal Amount of Series 2005A-1 Bonds	\$ 9,225,000.00
Principal Amount of Series 2005AMT Bonds	6,775,000.00
Reserve Account for Series 1995 Bonds	468,092.34
Less: Original Issue Discount	45,949.70
Less: Underwriter’s Discount	236,000.00
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$16,186,142.64</b>
 <b>Uses of Funds:</b>	
Deposit to Series 2005A Expense Account <sup>(1)</sup>	\$ 150,381.25
Deposit to the Reserve Account	1,154,992.52
Deposit to the Series 2005A-1 Account of the Redevelopment Fund	4,482,658.82
Repayment of Airport Enterprise Loans <sup>(2)</sup>	6,150,932.86
Deposit to Escrow Fund	4,247,177.19
<b>TOTAL USES OF FUNDS</b>	<b>\$16,186,142.64</b>

<sup>(1)</sup> Includes the fees and expenses of the fiscal consultant, Bond Counsel and Disclosure Counsel, the trustee (including counsel fees), costs of printing and other costs incidental to the issuance of the Series 2005A Bonds. The Agency will transfer an additional \$50,000 to the Trustee to fully fund the Series 2005A Expense Account.

<sup>(2)</sup> Indicated amounts will be used to repay loans from the County’s Airport Enterprise Fund, the proceeds of which have been used to finance redevelopment activities in the Project Area.

## THE SERIES 2005A BONDS

### Description of the Series 2005A Bonds

The Series 2005A Bonds will be dated, will bear interest at the annual rates and will mature, subject to prior redemption or acceleration, as shown on the inside cover page of this Official Statement. The Series 2005A Bonds will be issued in denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof. Interest on the Series 2005A Bonds will be payable on June 1 and December 1 of each year (each an “Interest Payment Date”), commencing June 1, 2006.

Principal and redemption premiums, if any, on the Series 2005A Bonds will be payable upon the surrender thereof at maturity or the earlier redemption thereof at the principal corporate trust office of the Trustee and will be paid in lawful money of the United States of America.

Interest on the Series 2005A Bonds will be computed on the basis of a 360-day year of twelve 30-day months. The Series 2005A Bonds will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is during the period from the 16th day of the month



next preceding an Interest Payment Date to and including such Interest Payment Date, in which event they will bear interest from such Interest Payment Date, or unless such date of registration is on or before May 15, 2006, in which event they will bear interest from their Dated Date; provided, however, that if, at the time of registration of any Series 2005A Bond, interest is then in default on the outstanding Series 2005A Bonds, such Series 2005A Bond will bear interest from the Interest Payment Date to which interest previously has been paid or made available for payment on the outstanding Series 2005A Bonds. Payment of interest on the Series 2005A Bonds due on or before the maturity or prior redemption of such Series 2005A Bonds will be made to the person whose name appears on the bond registration books of the Trustee as the registered owner thereof, as of the close of business on the 15th day of the month next preceding the Interest Payment Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail to such registered owner at his address as it appears on such books or, upon written request received prior to the 15th day of the month preceding an Interest Payment Date of an Owner of at least \$1,000,000 in aggregate principal amount of Series 2005A Bonds, by wire transfer in immediately available funds to an account within the continental United States designated by such Owner.

### **DTC and Book-Entry Only System**

DTC will act as securities depository for the Series 2005A Bonds. The Series 2005A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each series and for each year in which the Series 2005A Bonds mature in denominations equal to the aggregate principal amount of the Series 2005A Bonds of each series maturing in that year, and will be deposited with DTC. So long as Cede & Co. is the registered owner of the Series 2005A Bonds, as nominee of DTC, references herein to the owners of the Series 2005A Bonds or Bondowners means Cede & Co. and does not mean the actual purchasers of the Series 2005A Bonds (the "Beneficial Owners"). See APPENDIX C — "DTC AND BOOK-ENTRY ONLY SYSTEM," herein, for a further description of DTC and its book-entry system.

### **Redemption**

*Optional Redemption.* The Series 2005A Bonds due on or before December 1, 2015 are not subject to redemption prior to their respective stated maturities. Series 2005A Bonds maturing on or after December 1, 2016 are subject to redemption, as a whole or in part, as designated by the Agency, or, absent such designation, *pro rata* among maturities, and by lot within any one maturity if less than all of the Series 2005A Bonds of such maturity are to be redeemed, prior to their respective maturity dates, at the option of the Agency, on any date on or after December 1, 2015, from funds derived by the Agency from any source, at the redemption prices of the principal amount of the Series 2005A Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption

*Sinking Fund Redemption.* The Series 2005A-1 Bonds will also be subject to mandatory redemption in part by lot prior to their stated maturity dates on any December 1, on or after December 1, 2022, solely from funds derived by the Agency from the required deposit into the Sinking Account provided for in the Indenture, at the principal amount thereof plus accrued interest thereon to the redemption date, without premium, in the aggregate principal amounts and on the dates set forth below:

<b>Series 2005A-1 Bonds</b>	
<b>Year (December 1)</b>	<b>Principal Amount</b>
2022	\$645,000
2023	680,000
2024	715,000
2025*	150,000

\* Maturity.

The Series 2005AMT Bonds will also be subject to mandatory redemption in part by lot prior to their stated maturity dates on any December 1, on or after December 1, 2025, solely from funds derived by the Agency from the required deposit into the Sinking Account provided for in the Indenture, at the principal amount thereof plus accrued interest thereon to the redemption date, without premium, in the aggregate principal amounts and on the dates set forth below:

<b>Series 2005AMT Bonds</b>	
<b>Year (December 1)</b>	<b>Principal Amount</b>
2025	\$ 605,000
2026	795,000
2027	845,000
2028	890,000
2029	945,000
2030	1,000,000
2031	825,000
2032*	870,000

\* Maturity

For purposes of selecting Series 2005A Bonds for redemption, the Series 2005A Bonds will be deemed to be composed of \$5,000 portions and any such portions may be separately redeemed.

In lieu of redemption of any Term Bond, amounts on deposit in the Revenue Fund or in the Sinking Account therein may also be used and withdrawn by the Trustee at any time, upon the Request of the Agency, for the purchase of such Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Agency may in its discretion determine, but not in excess of the principal amount thereof plus accrued interest to the purchase date. The principal amount of any Term Bonds so purchased by the Trustee in any 12-month period ending 60 days prior to any Sinking Account Payment Date in any year will be credited towards and will reduce the principal amount of such Term Bonds required to be redeemed on such Sinking Account Payment Date in such year.

## **Notice of Redemption**

Notice of redemption will be mailed by first class mail by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (1) the respective Owners of Series 2005A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (2) to one or more Information Services designated in writing to the Trustee by the Agency and (3) the Securities Depositories provided, that with regard to the notice delivered pursuant to clauses (ii) and (iii), such notice may be given by means acceptable to such institutions. Each notice of redemption will state the date of such notice, the Series 2005A Bonds to be redeemed, the date of issue of such Series 2005A Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity are to be redeemed, the distinctive certificate numbers of the Series 2005A Bonds of such maturity to be redeemed and, in the case of Series 2005A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of such Series 2005A Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Series 2005A Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Series 2005A Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

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

The Agency will have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be canceled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Series 2005A Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Agency and the Trustee will have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

## DEBT SERVICE ON THE SERIES 2005A BONDS

Set forth below is the principal and interest on the Series 2005A-1 Bonds and the Series 2005AMT Bonds.

Year Dec. 1	Series 2005A-1 Principal	Series 2005A-1 Interest	Series 2005A-1 Total	Series 2005AMT Principal	Series 2005AMT Interest	Series 2005AMT Total	Total Debt Service
2006	\$ 360,000	\$ 427,900.41	\$ 787,900.41		\$ 366,838.02	\$ 366,838.02	\$ 1,154,738.43
2007	320,000	441,267.52	761,267.52		389,562.50	389,562.50	1,150,830.02
2008	335,000	429,267.52	764,267.52		389,562.50	389,562.50	1,153,830.02
2009	345,000	416,035.02	761,035.02		389,562.50	389,562.50	1,150,597.52
2010	360,000	401,717.52	761,717.52		389,562.50	389,562.50	1,151,280.02
2011	375,000	386,057.52	761,057.52		389,562.50	389,562.50	1,150,620.02
2012	395,000	368,995.02	763,995.02		389,562.50	389,562.50	1,153,557.52
2013	415,000	350,430.02	765,430.02		389,562.50	389,562.50	1,154,992.52
2014	430,000	330,302.52	760,302.52		389,562.50	389,562.50	1,149,865.02
2015	455,000	309,340.00	764,340.00		389,562.50	389,562.50	1,153,902.50
2016	475,000	286,590.00	761,590.00		389,562.50	389,562.50	1,151,152.50
2017	500,000	262,840.00	762,840.00		389,562.50	389,562.50	1,152,402.50
2018	525,000	237,215.00	762,215.00		389,562.50	389,562.50	1,151,777.50
2019	555,000	210,177.50	765,177.50		389,562.50	389,562.50	1,154,740.00
2020	580,000	181,040.00	761,040.00		389,562.50	389,562.50	1,150,602.50
2021	610,000	150,590.00	760,590.00		389,562.50	389,562.50	1,150,152.50
2022	645,000	118,260.00	763,260.00		389,562.50	389,562.50	1,152,822.50
2023	680,000	83,430.00	763,430.00		389,562.50	389,562.50	1,152,992.50
2024	715,000	46,710.00	761,710.00		389,562.50	389,562.50	1,151,272.50
2025	150,000	8,100.00	158,100.00	\$ 605,000	389,562.50	994,562.50	1,151,662.50
2026				795,000	354,775.00	1,149,775.00	1,149,775.00
2027				845,000	309,062.50	1,154,062.50	1,154,062.50
2028				890,000	260,475.00	1,150,475.00	1,150,475.00
2029				945,000	209,300.00	1,154,300.00	1,154,300.00
2030				1,000,000	154,962.50	1,154,962.50	1,154,962.50
2031				825,000	97,462.50	922,462.50	922,462.50
2032				870,000	50,025.00	920,025.00	920,025.00
<b>Total</b>	\$9,225,000	\$5,446,265.57	\$14,671,265.57	\$6,775,000	\$9,204,588.02	\$15,979,588.02	\$30,650,853.59

Source: Stone & Youngberg LLC

### Plan of Refunding

A portion of the proceeds of the Series 2005A-1 Bonds will be deposited in an escrow fund (the "Escrow Fund") established under an Escrow Agreement between the Agency and the Trustee. The moneys so deposited will be used to purchase certain securities, the interest and principal of which will be sufficient to redeem on February 1, 2006 the outstanding 1995 Bonds at a redemption price of 101% plus accrued interest to the redemption date. See "VERIFICATION" herein.

## SECURITY FOR THE SERIES 2005A BONDS

The following discussion describes the security for the Series 2005A Bonds, which are payable solely from (i) certain tax increment revenues generated in the Project Area and (ii) certain Airport Fund Revenues pledged by the County pursuant to the Master Pledge Agreement and the Second Supplement.



## **Pledge and Allocation of Taxes**

Under provisions of the California Constitution and the Redevelopment Law, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State of California, any city, county, city and county or other public corporation (“taxing agencies”) for Fiscal Years beginning after July 7, 1987, which was the effective date of the ordinance approving the redevelopment plan for the Project Area (the “Effective Date”), are divided as follows:

1. The portion equal to the amount of those taxes which would have been produced by the current tax rate, applied to the assessed value of the taxable property in the Project Area as last equalized prior to the Effective Date is paid (when collected) into the funds of those respective taxing agencies as taxes by or for such taxing agencies;

2. Except as provided in subparagraph (3) below, that portion of such levied taxes each year in excess of such amount is allocated to and when collected paid into a special fund of the Agency, to the extent required to pay the 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, (1) the Agency’s redevelopment projects within the Project Area and (2) under certain circumstances, publicly owned improvements outside of the Project Area; and

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

Pursuant to the Indenture, “Tax Revenues” means, for each Fiscal Year, the taxes (including all payments, reimbursements and subventions, if any, specifically attributable to *ad valorem* taxes pursuant to the Law in connection with the Project Area, excluding (a) amounts, if any, required to be deposited by the Agency in the Housing Fund and used for certain housing purposes, provided, however, that such amounts will not be excluded if and to the extent that the Agency makes such amounts available as Tax Revenues, (b) amounts required to be paid to certain school districts pursuant to the Settlement Agreement, (c) amounts paid to the Metropolitan Water District of Southern California and Grossmont Community College District and (d) amounts, if any, payable pursuant to Section 33607.5 of the Law but only to the extent such amounts are not subordinated to the payment of debt service on the Bonds.

Pursuant to the Indenture, the term “Housing Fund” means the Low and Moderate Income Housing Fund, established pursuant to Section 33334.3 of the Law with respect to the Project Area and held by the Agency.

The Agency and the County of San Diego entered into a settlement agreement (the “Settlement Agreement”) with the Cajon Valley Union School District, the Santee School District, the Grossmont Union High School District, and the County Superintendent of Schools (collectively, the “School Districts”) pertaining to the Project Area on June 24, 1989. Under the agreement, the School Districts are entitled to receive certain payments. The Metropolitan Water District of Southern California and Grossmont Community College District also receive a share of the tax revenues attributable to the 2% maximum inflationary factor under California law. See APPENDIX A — “FISCAL CONSULTANT’S REPORT” for the Fiscal Consultant’s projections of the pass-through payments to be made to other taxing entities. Such pass-through payments will not be available to the Agency to pay debt service on the Series 2005A Bonds.

The Agency has no power to levy and collect property taxes, and any legislative property tax de-emphasis or provision of additional sources of income to taxing agencies having the effect of reducing the property tax rate would, in all likelihood, reduce the amount of Tax Revenues that would otherwise be available to pay the principal of, interest on and premium, if any, on the Series 2005A Bonds. Likewise, broadened property tax exemptions could have a similar effect. For a further description of factors which may result in decreased Tax Revenues, see “RISK FACTORS” herein.

### **Turbo Redemption**

Pursuant to the Indenture, the Trustee is required to deposit in the Turbo Redemption Account, established under the Indenture, an amount equal to the Turbo Redemption Amount. The term “Turbo Redemption Amount” means for each Bond Year, commencing with the Bond Year ending on December 1, 2016, an amount equal to 30% of the following: Tax Revenues less Annual Debt Service for such Bond Year less the Annual Administrative Expense Requirement. The term “Annual Administrative Expense Requirement” means an amount equal to \$175,000 for the Bond Year ending December 1, 2006, and increasing by 2% for each Bond Year thereafter.

All moneys in the Turbo Redemption Account shall be used by the Trustee to optionally redeem (or purchase) Series 2005A Bonds in the following order: (1) Series 2005AMT Term Bonds and (2) all other Series 2005A Bonds. All such redemptions of Series 2005AMT Term Bonds will be credited against Sinking Account Installments in inverse order of the Sinking Installment Dates. All such Redemptions from amounts deposited in the Turbo Redemption Account shall be in Authorized Denominations on any date specified by the Agency during the Bond Year in which such deposit is made and for which an optional redemption may occur pursuant to the Indenture, or if no date is specified by the Agency, on December 1 of such Bond Year. Table 9 below projects the effect of this turbo redemption on annual debt service beginning in the December 1, 2016 Bond Year.

### **Pledge of Airport Fund Revenues**

*The Airport System and Enterprise Fund.* On May 6, 1980, the Board of Supervisors of the County authorized the establishment of the Airport Enterprise Fund to account for the County’s operation of its Airport System. The Airport System includes each and every part of the existing airport system of the County together with all additions and improvements which may be acquired or construed hereafter. **The Airport System does not include San Diego International (Lindbergh), the main airport servicing the San Diego area.** Gillespie Field is the oldest and largest of the eight airports or airstrips currently comprising the Airport System. In order to govern financings of the Airport Enterprise Fund, the County adopted the Master Pledge Agreement, dated as of September 1, 1995, which was Amended and Restated as of December 1, 2005 (the “Master Pledge Agreement”). See “THE AIRPORT SYSTEM” below for a description of the revenues and expenditures of the Airport Enterprise Fund and a summary of its financial results for the last four fiscal years.

*The Master Pledge Agreement.* The Master Pledge Agreement provides the terms and conditions pursuant to which the County may finance the acquisition, construction and delivery of improvements to the County’s Airport System from monies on deposit in the Airport Enterprise Fund. The Master Pledge Agreement requires the County to deposit into the Airport Enterprise Fund all rents, rates, fees, service charges, user charges, instruments, chattel paper, negotiable documents, and other charges, income, or receipts which are payable to, received by, or imposed by the County in connection with the operation of the County’s Airport System and any lease payments from certain leases of commercial/industrial property (the “Leases”) of the Airport System pursuant to which the underlying property is required by the Federal Aviation Administration to be used for airport purposes (collectively, the “Revenues”). See “THE AIRPORT SYSTEM—Operating Revenues and Expenses” and “THE AIRPORT SYSTEM—Land Leases” herein.

The Master Pledge Agreement authorizes the County to enter into Airport Fund Obligations secured by a pledge of the Revenues less Operating Expenses (“Net Revenues”) and certain other amounts on deposit in the Airport Enterprise Fund and to enter into Supplemental Agreements which will contain the specific terms and conditions of any Airport Fund Obligation. The Series 2005A Bonds are secured by the Second Supplement, as defined below, and the obligation to make Pledged Installments, as defined below, pursuant to the Second Supplement, constitutes an Airport Fund Obligation. **Any payments required under the Master Pledge Agreement or any Airport Fund Obligation are limited obligations of the County and neither the General Fund of the County nor the credit or taxing power of the County is liable for any payments required under the Master Pledge Agreement or any such Airport Fund Obligation.**

*The Second Supplemental Pledge Agreement and Pledged Installments.* Pursuant to the First Supplemental Agreement, dated as of September 1, 1995 (the “First Supplement”) among the Agency, the County and the Trustee, the initial Airport Fund Obligation incurred by the County, the County pledged to make limited payments to the Agency in connection with the Series 1995 Bonds. The County’s obligation to make such payments is discharged with the refunding of the Series 1995 Bonds.

Pursuant to the Second Supplemental Pledge Agreement, dated as of December 1, 2005 (the “Second Supplement”) among the Agency, the County and the Trustee, the second and only other Airport Fund Obligation incurred by the County to date, the County pledged to make limited payments to the Agency in connection with the Series 2005A Bonds. The County’s obligation to make such prescribed payments in any Fiscal Year is secured by a pledge of Net Revenues and is limited to the Pledged Installment calculated for such Fiscal Year. The obligation to apply Net Revenues in any Fiscal Year to the repayment of the Bonds is not an unlimited obligation of the Airport Enterprise Fund.

From Net Revenues of the Airport Enterprise Fund, the County pledges to pay installments on June 1 and December 1 (the “Pledged Installments”). The Pledged Installments of each year the Series 2005A Bonds are outstanding are equal to (a) the Maximum Annual Debt Service on the Series 2005A Bonds less (b) 75% of the Tax Revenues received in the previous Fiscal Year.

Each Pledged Installment shall be due and payable on or before June 1 and December 1 of each year, commencing on June 1, 2006, net of amounts then on deposit in the Airport Enterprise Fund and available for payment on such Interest Payment Date; provided that no amounts need be paid as Pledged Installments if Tax Revenues are sufficient to pay debt service on the Series 2005A Bonds. In order to provide for the timely payment of the Pledged Installments, the County agrees and covenants that it will make the Pledged Installments, and agrees and covenants that it will make the Pledged Installments due on each Interest Payment Date from amounts credited to the System Debt Service Account, established under the Master Pledge Agreement, and agrees to pay them to the Trustee, for the benefit of the Agency, for deposit in the Debt Service Fund held by the Trustee.

*Rate Covenant.* In the Master Pledge Agreement, the County has covenanted to fix, charge and collect rates, fees and charges for use of the Airport System and shall revise such rates, fees and charges as may be necessary or appropriate, to produce in each Fiscal Year Revenues which, when combined with the amount budgeted by the County to be expended from the Rate Stabilization Account during such Fiscal Year, will at least equal the sum of (1) 100% of the Operation Expenses for such Fiscal Year, plus (2) 125% of the aggregate Debt Service Expenses payable in such Fiscal Year, plus (3) 100% of the sum the amounts, if any, the County elects to deposit in the Rate Stabilization Account for such Fiscal Year, plus (4) 100% of the debt service payable in such Fiscal Year with respect to subordinate Indebtedness. If the County complies in all material respects with the reasonable recommendations of the Airport Consultant with respect to charging rents, fees, charges and methods of operation or collection, or makes a good faith determination that such recommendations are not in the best interest of the County, the County shall have been deemed to comply with the rate covenant for such year; provided, that the Net Revenues shall in no event have been less than

100% of Debt Service Expenses for such Fiscal Year. No assurances can be given, however, that the County will be able to collect sufficient rents, particularly with respect to the Leases, to meet Debt Service Expenses. See “RISK FACTORS – Rate Covenant Not a Guarantee.”

*Rate Stabilization Account.* The Master Pledge agreement creates a Rate Stabilization Account which may be funded from time to time by the County in an amount determined at the County’s sole discretion (the “Rate Stabilization Requirement”). Any amounts which are credited to the Rate Stabilization Account may be used by the County in any Fiscal Year to offset the need for any increase in the rates and charged imposed by the County pursuant to the Rate Covenant described above. The County may use amounts credited to the Rate Stabilization Account to pay operating expenses or debt service of the Airport System. The County has never deposited any amounts into the Rate Stabilization Account.

*Revenue Test for Additional Airport Fund Obligations.* The County may enter into additional Airport Fund Obligations and Supplemental Pledge Agreements pursuant to the terms of the Master Pledge Agreement which, among other terms, provide that (i) Net Revenues shall have amounted to at least 125% of the Maximum Annual Debt Service with respect to Airport Fund Obligations outstanding during such period and (ii) that Net Revenues plus certain other amounts shall equal at least 125% of the Maximum Annual Debt Service on Airport Fund Obligations to be outstanding after incurring such additional Airport Fund Obligations.

The Second Supplement provides that for purposes of calculating Maximum Annual Debt Service pursuant to the Master Pledge Agreement, the greatest amount of principal and interest becoming due and payable with respect to the Series 2005A Bonds, as of any date of calculation, shall be reduced by an amount equal to .75 times Tax Revenues received in the previous Fiscal Year.

To the extent that Tax Revenues decrease after the issuance of additional Airport Fund Obligations, the Net Revenues of the Enterprise Fund may not be sufficient to pay debt service on all Airport Fund Obligations.

See APPENDIX D — “DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” for a description of the items any or all of which may be added to such Net Revenues for the purpose of meeting the requirement set forth above. In addition, the County is not prevented from issuing obligations which are payable out of or which are secured by a subordinate pledge of the Net Revenues, or by a pledge of surplus amounts.

## **Reserve Accounts**

*General.* To further secure the payment of principal of and interest on the Series 2005A Bonds, the Agency is required, upon delivery of the Series 2005A Bonds and each series of Additional Bonds, to fund a Reserve Account in an amount equal to the respective Reserve Account Requirement for each such series. The following describes the Reserve Account provisions under the Indenture.

*Reserve Account Requirement.* As of the Closing Date, the Reserve Account Requirement for the Series 2005A Bonds is an amount equal to the lesser of (1) 10% of the proceeds (within the meaning of Section 148 of the Code) of each Series of Bonds Outstanding; (2) 125% of Average Annual Debt Service of the Series 2005A Bonds or (3) Maximum Annual Debt Service on all Outstanding Bonds; provided that for the purpose of such calculations, there will be excluded an amount of Bonds or debt service thereon equal to the amount deposited in any escrow fund established pursuant to the Indenture. The Trustee shall set aside from the Debt Service Fund and deposit in the Reserve Account an amount of money (or other authorized deposit of security, as contemplated by the following paragraphs) equal to the Reserve Account Requirement. No deposit need be made in the Reserve Account so long as there shall be on deposit therein an amount equal



to the Reserve Account Requirement. All money in (or available to) the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account or the Sinking Account in such order, in the event of any deficiency at any time in any of such accounts, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all Bonds then Outstanding, except that for so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Account Requirement shall be transferred from the Reserve Account by the Trustee to the Debt Service Fund.

*Funding of Reserve Account Requirement.* Upon issuance of the Series 2005A Bonds, the Reserve Account Requirement will equal \$1,154,992.52. The Agency anticipates that it will fund the Reserve Account Requirement upon issuance of the Series 2005A Bonds through a cash deposit in an amount equal to the Reserve Account Requirement.

*Qualified Reserve Instruments.*

Letter of Credit. In lieu of making the Reserve Account Requirement deposit in the Reserve Account or in replacement of moneys then on deposit in the Reserve Account (which shall be transferred by the Trustee to the Agency upon delivery of a letter of credit satisfying the requirements stated below), the Agency, with the consent of the Insurer, if any, and with prior written notification to S&P and/or Moody's, if the Bonds are then rated by S&P and/or Moody's, may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having, at the time of such delivery, unsecured debt obligations rated in at least the second highest rating category (without respect to any negative modifier) of S&P and/or Moody's, in an amount, together with moneys, Authorized Investments or insurance policies (as described in the next paragraph) on deposit in the Reserve Account, equal to the Reserve Account Requirement. Draws on such letter of credit must be payable no later than two Business Days after presentation of a sight draft thereunder. Such letter of credit shall have a term of no less than three years. The issuer of such letter of credit shall be required to notify the Trustee and the Agency whether or not the letter of credit will be extended no later than 13 months prior to the stated expiration date thereof. At least one year prior to the stated expiration of such letter of credit, the Agency shall either (1) deliver a replacement letter of credit, (2) deliver an extension of the letter of credit for at least an additional year, or (3) deliver to the Trustee an insurance policy satisfying the requirements of the next paragraph. Upon delivery of such replacement letter of credit, extended letter of credit, or insurance policy, the Trustee shall cancel and deliver the then effective letter of credit to the issuer thereof. If the Agency shall fail to deposit a replacement letter of credit, extended letter of credit or insurance policy with the Trustee, the Agency shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Account Requirement is on deposit in the Reserve Account no later than the stated expiration date of the letter of credit. If the Agency shall fail to make such deposits, the Trustee shall draw on such letter of credit on or before 10 days prior to its stated expiration date in an amount necessary to replenish the Reserve Account to the Reserve Account Requirement. If a drawing is made on the letter of credit, the Agency shall make such payments as may be required by the terms of the letter of credit or any obligations related thereto (but no less than quarterly *pro rata* payments) so that the letter of credit shall, absent the delivery to the Trustee of an insurance policy satisfying the requirements of the next paragraph or the deposit in the Reserve Account of an amount sufficient to increase the balance in the Reserve Account to the Reserve Account Requirement, be reinstated in the amount of such drawing within one year of the date of such drawing.

Insurance Policy. In lieu of making the Reserve Account Requirement in the Reserve Account or in replacement of moneys then on deposit in the Reserve Account (which shall be transferred by the Trustee to the Agency upon delivery of an insurance policy satisfying the requirements stated below), the Agency, with the consent of the Bond Insurer, if any, and with prior written notification to S&P and/or Moody's, if the Bonds are then rated by S&P and/or Moody's, may also deliver to the Trustee an insurance policy securing an

amount, together with moneys, Authorized Investments or letters of credit (as described in the immediately preceding paragraph) on deposit in the Reserve Account, no less than the Reserve Account Requirement, issued by an insurance company licensed to issue insurance policies guaranteeing the timely payment of debt service on the Bonds and whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies), at the time of such delivery, are rated in the two highest rating categories (without respect to any negative modifier) of S&P and Moody's. A letter of credit meeting the requirements of the immediately preceding paragraph or an insurance policy satisfying the requirements of this paragraph are referred to in this Official Statement as a "Qualified Reserve Instrument."

If and to the extent that the Reserve Account has been funded with a combination of cash (or Authorized Investments) and a Qualified Reserve Instrument, then all such cash (or Authorized Investments) shall be completely used before any demand is made on such Qualified Reserve Instrument, and replenishment of the Qualified Reserve Instrument shall be made prior to any replenishment of any cash (or Authorized Investments). If the Reserve Account is funded, in whole or in part, with more than one Qualified Reserve Instrument, then any draws made against such Qualified Reserve Instrument shall be made *pro rata*.

### **Issuance of Additional Bonds**

The Agency may at any time after the issuance and delivery of the Series 2005A Bonds issue Additional Bonds payable from Tax Revenues and secured by a lien and charge upon Tax Revenues equal to and on a parity with the lien and charge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the specific conditions set forth in the Indenture, which are conditions precedent to the issuance of any such Additional Bonds:

(1) The Agency will be in compliance with all covenants set forth in the Indenture and any Supplemental Indentures, and a Certificate of the Agency to that effect will have been filed with the Trustee.

(2) The issuance of such Additional Bonds have been duly authorized pursuant to the Law and all applicable laws, and the issuance of such Additional Bonds has been provided for by a Supplemental Indenture duly adopted by the Agency which will contain certain matters set forth in the Indenture.

(3) The Tax Revenues based upon the assessed valuation of taxable property in the Project Area as shown on the most recently equalized assessment roll and the most recently established tax rates preceding the date of the Agency's adoption of the Supplemental Indenture providing for the issuance of such Additional Bonds will be in an amount equal to at least 125% of the Maximum Annual Debt Service on all then Outstanding Bonds and such Additional Bonds and any unsubordinated loans, advances or indebtedness payable from Tax Revenues pursuant to the Law.

For the purposes of the issuance of Additional Bonds, Outstanding Bonds will not include any Bonds the proceeds of which are deposited in an escrow fund held by an escrow agent, provided that the Supplemental Indenture authorizing issuance of such Additional Bonds will provide that: (a) such proceeds will be deposited or invested with or secured by an institution rated "AA" by S&P or "Aa" by Moody's (without regard to negative modifiers) at a rate of interest which, together with amounts made available by the Agency from bond proceeds or otherwise, is at least sufficient to pay Annual Debt Service on the foregoing Bonds; (b) moneys may be transferred from said escrow fund only if Tax Revenues for the next preceding fiscal year will be at least equal to 125% of Maximum Annual Debt Service on all Outstanding Bonds less a principal amount of Bonds which is equal to moneys on deposit in said escrow fund after each such transfer; and (c) Additional Bonds will be redeemed from moneys remaining on deposit in said escrow fund at the expiration of a specified escrow period in such manner as may be determined by the Agency.

In the event such Additional Bonds are to be issued solely for the purpose of refunding and retiring any Outstanding Bonds, interest and principal payments on the Outstanding Bonds to be so refunded and retired from the proceeds of such Additional Bonds being issued will be excluded from the foregoing computation of Maximum Annual Debt Service. Nothing contained in the Indenture will limit the issuance of any tax allocation bonds of the Agency payable from Tax Revenues and secured by a lien and charge on Tax Revenues if, after the issuance and delivery of such tax allocation bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding nor will anything contained in the Indenture prohibit the issuance of any tax allocation bonds or other indebtedness by the Agency secured by a pledge of tax increment revenues (including Tax Revenues) subordinate to the pledge of Tax Revenues securing the Bonds.

As used above, the term “Maximum Annual Debt Service” means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds. The term “Annual Debt Service” means, for each Bond Year, the sum of (1) the interest falling due on the Outstanding Bonds in such year, assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds, if any, are redeemed from the sinking account as may be scheduled, (2) the principal amount of the Outstanding Serial Bonds, if any, falling due by their terms in such year, and (3) the minimum amount of such Outstanding Term Bonds required to be paid or called and redeemed in such year.

### **Series 2005A Bonds Not a Debt of the County of San Diego or the State of California**

The Series 2005A Bonds are limited obligations of the Agency and are payable, as to interest thereon and principal thereof, exclusively from the Tax Revenues and Airport Fund Revenues, and the Agency is not obligated to pay them except from the Tax Revenues and Airport Fund Revenues. All of the Series 2005A Bonds are equally secured by a pledge of, and charge and lien upon, all of the Tax Revenues and Airport Fund Revenues, and the Tax Revenues and Airport Fund Revenues constitute a trust fund for the security and payment of the interest on and the principal of the Series 2005A Bonds. The Series 2005A Bonds are not a debt of the County of San Diego, the State of California or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable therefor, nor in any event will the Series 2005A Bonds be payable out of any funds or properties other than those of the Agency. The Series 2005A Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction, and neither the members of the Agency nor any persons executing the Series 2005A Bonds are liable personally on the Series 2005A Bonds by reason of their issuance.

### **RISK FACTORS**

*The following information should be considered by prospective investors in evaluating an investment in the Series 2005A Bonds. The following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Series 2005A Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

To estimate the tax increment available to pay debt service on the Series 2005A Bonds, the Agency has retained Rosenow Spevacek Group Inc., as its Fiscal Consultant, who has made certain assumptions with regard to the assessed valuation in the Project Area, future tax rates, percentage of taxes collected, the amount of funds available for investment and the interest rate at which those funds will be invested. The Agency believes these assumptions to be reasonable, but to the extent that the assessed valuation, the tax rates, the percentage of taxes collected, the amount of the funds available for investment or the interest rate at which they are invested are less than projected by the Fiscal Consultant, the tax increment available to pay debt service on the Series 2005A Bonds may be less than those projected herein.

## **Reduction in Assessed Value**

Tax Revenues allocated to the Agency are determined in part by the amount by which the assessed valuation of property in the Project Area exceeds the respective base year assessed valuation for such property, as well as by the current rate at which property in the Project Area is taxed. The Agency itself has no taxing power with respect to property, nor does it have the authority to affect the rate at which property is taxed. Assessed valuation of taxable property within the Project Area may be reduced by economic factors beyond the control of the Agency or by substantial damage, destruction or condemnation of such property.

At least four types of events that are beyond the control of the Agency could occur and cause a reduction in Tax Revenues, thereby impairing the ability of the Agency to make payments of principal and interest and premium (if any) when due on the Series 2005A Bonds on a timely basis.

First, a reduction of the assessed valuation of taxable property in the Project Area caused by economic factors or other factors beyond the Agency's control, such as relocation out of the Project Area by one or more major property owners; successful appeals by property owners for a reduction in a property's assessed valuation; a reduction of the general inflationary rate (see, "—Reduction in Inflationary Rate" below); a reduction in transfers of property or construction activity; or the destruction of property caused by natural or other disasters (see "—Risk of Earthquake" below); or other events that permit reassessment of property at lower values or could result in a reduction of tax increment revenues.

Second, substantial delinquencies in the payment of property taxes by the owners of taxable property within the Project Area could impair the timely receipt by the Agency of Tax Revenues.

Third, the State electorate or legislature could adopt further limitations with the effect of reducing tax increment revenues. A limitation already exists under Article XIII A of the California Constitution, which was adopted pursuant to the initiative process. The State electorate could adopt additional similar limitations with the effect of reducing Tax Revenues. For a further description of Article XIII A, see "TAX ALLOCATION FINANCING — Property Tax Rate and Appropriation Limitations" herein.

To estimate the total revenues available to pay debt service on the Series 2005A Bonds, the Agency has made certain assumptions with regard to the availability of tax increment revenues. The Agency believes these assumptions to be reasonable, but to the extent tax increment revenues are less than anticipated, the total revenues available to pay debt service on the Series 2005A Bonds or to refinance the Series 2005A Bonds may be less than those projected herein. Unless mentioned herein, no independent third party has reviewed the estimates or assumptions made by the Agency. See "TAX INCREMENT REVENUES — Debt Service and Estimated Coverage" herein.

## **Reduction in Inflationary Rate**

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value basis 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. This measure is computed on a calendar year basis. The California State Department of Finance has indicated that such inflationary factor is 1.867% for Fiscal Year 2004-05. For Fiscal Year 1996-97, the inflationary factor as determined under Article XIII A resulted in an increase in assessed valuation of 1.11%. For Fiscal Year 1995-96, the inflationary factor was 1.19%. The Fiscal Consultant has projected Tax Revenues to be received by it based, among other things, upon 2% inflationary increases. Should the assessed valuation of taxable property in the Project Area not increase at the projected annual rate of 2%, the Agency's receipt of future Tax Revenues may be adversely



affected. See “TAX ALLOCATION FINANCING—Property Tax Rate and Appropriation Limitations” herein.

### **State Budget Deficit and Its Impact on Tax Revenues**

Since Fiscal Year 1993-94, the State Legislature has authorized the reallocation of property tax revenues from redevelopment agencies multiple times in an effort to assist the State in balancing its General Fund budget. Each time the State reallocates property tax revenues from redevelopment agencies, it reduces the amount of revenues that the Agency can use in the payment of debt service on the Series 2005A Bonds. Further, Proposition 1A, which was approved by the California electorate in November 2004 and which placed restrictions in the State Constitution on the ability of the State Legislature to reallocate property tax revenues from local agencies, does not restrict or prevent the State Legislature from reallocating property tax revenues from redevelopment agencies, including the Agency. As such, no assurances can be made that the State will not make further reallocations in property tax revenues that would reduce the amount of property tax revenues to which the Agency is entitled. The following is a list of recent actions taken by the State Legislature which reallocated property tax revenues from redevelopment agencies:

In connection with its approval of a budget for the 1993-94 Fiscal Year, the State Legislature enacted Senate Bill 1135 which, among other things, reallocated approximately \$65 million from redevelopment agencies to school districts by shifting approximately 5.675% of each agency’s tax increment, net of amounts due to other taxing agencies, to school districts for the current and next Fiscal Years. The amount required to be transferred by a redevelopment agency to the county auditor for deposit in the Educational Revenue Augmentation Fund (“ERAF”) under such legislation was apportioned among all of its redevelopment areas on a collective basis, and was not allocated separately to individual project areas. The aggregate amount of tax revenues which the Agency was required to pay under the legislation with respect to the Project Area during the two-year period was \$8,225.

In connection with its approval of a budget for the 2002-03 Fiscal Year, the State Legislature enacted Assembly Bill 1768, effective September 30, 2002, which reallocates \$75 million from redevelopment agencies to school districts during the 2002-03 Fiscal Year. Each agency’s proportionate share of such amount was required to be transferred to the county auditor for deposit in the ERAF prior to May 10, 2003. The Agency’s share allocated to the Project Area was \$39,359. The Agency transferred such amount as required prior to such date.

In connection with its approval of a budget for the 2003-04 Fiscal Year, the State Legislature enacted Senate Bill 1045, effective December 1, 2003, which reallocated \$135 million from redevelopment agencies to school districts during the 2003-04 Fiscal Year. Each agency’s proportionate share of such amount was required to be transferred to the county auditor for deposit in the ERAF prior to May 10, 2004. The Agency’s share allocated to the Project Area was \$70,214. The Agency transferred such amount as required prior to such date. Senate Bill 1045 also allowed redevelopment agencies to extend the effective date of their redevelopment plans and the date to receive tax increment revenues by one year. The Agency has not adopted, and has no current plans to adopt, an ordinance extending such dates pursuant to Senate Bill 1045.

In connection with its approval of a budget for the 2004-05 Fiscal Year, the State Legislature enacted Senate Bill 1096, effective August 5, 2004, which reallocated \$125 million from redevelopment agencies to school districts during the 2004-05 Fiscal Year and \$125 million from redevelopment agencies to school districts during the 2005-06 Fiscal Year. Each agency’s proportionate share of such amounts is required to be transferred to the county auditor for deposit in the ERAF prior to May 10, 2005 and May 10, 2006, respectively. The Agency’s share of the payment is approximately \$121,121 for fiscal year 2004-05. Senate Bill 1096 also allowed redevelopment agencies to extend the effective date of their redevelopment plans and the date to receive tax increment revenues under certain circumstances by up to two years. The Agency has

not adopted, and has no current plans to adopt, an ordinance extending such dates pursuant to Senate Bill 1096.

Information about the State budget and State spending is available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading, “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements for its various debt obligations, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). All of such websites are provided for general informational purposes only and the material on such sites is in no way incorporated into this Official Statement.

### **Section 33676 Resolutions; Settlement Agreement**

Pursuant to Section 33676 of the Law, the Southern California Metropolitan Water District has elected to be allocated a portion of tax increment revenues generated by the Project Area attributable to increases in their override tax rates, and/or increases in the assessed value of taxable property in the Project Area attributable to a maximum annual inflationary growth of 2 percent allowed by Article XIII A of the California Constitution. Although the Grossmont Community College District did not file a similar resolution, the Auditor-Controller of the County of San Diego is allocating property tax revenues as though the district has made such filing. Allocations resulting from the inflationary increase in value are computed by San Diego County by compounding the base year value of a redevelopment project by two percent per year and allocating to the electing taxing entity its share of base levy (1%) taxes generated by the difference between the compounded and actual base year value. For a discussion of the Section 33676 elections, see APPENDIX A — “FISCAL CONSULTANT’S REPORT.”

The Agency and the County entered into a settlement agreement (the “Settlement Agreement”) with the Cajon Valley Union School District, the Santee School District, the Grossmont Union High School District, and the County Superintendent of Schools (collectively, the “School Districts”) pertaining to the Project Area on June 24, 1989. Under the Settlement Agreement, the School Districts are entitled to receive certain payments. See APPENDIX A — “FISCAL CONSULTANT’S REPORT” for the Fiscal Consultant’s projections of the pass-through payments to be made to other taxing entities. The Agency and the County believe that the calculation of these payments is accurately set forth in the Fiscal Consultant’s Report, but the amount of the payments could be disputed by the School Districts. Any increase of such payments as a result of any successful challenge by the School Districts would adversely affect the amount of Tax Revenues available to pay debt service on the Series 2005A Bonds

### **Limited Obligations**

The Series 2005A Bonds are limited obligations of the Agency and are payable, as to interest thereon and principal thereof, exclusively from the Tax Revenues and Airport Fund Revenues, and the Agency is not obligated to pay them except from the Tax Revenues and Airport Fund Revenues. All of the Series 2005A Bonds are equally secured by a pledge of, and charge and lien upon, all of the Tax Revenues and Airport Fund Revenues, and the Tax Revenues and Airport Fund Revenues constitute a trust fund for the security and payment of the interest on and the principal of the Series 2005A Bonds. The Series 2005A Bonds are not a debt of the County of San Diego, the State of California or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable therefor, nor in any event will the Series 2005A Bonds be payable out of any funds or properties other than those of the Agency. The Series 2005A Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction, and neither the members of the Agency nor any persons executing the Series 2005A Bonds are liable personally on the Series 2005A Bonds by reason of their issuance.

## **Rate Covenant Not a Guarantee**

Pursuant to the Master Pledge Agreement, the County has agreed to fix, charge and collect rates, fees and charges for use of the Airport System and with respect to the Leases, and to revise such rates, fees and charges as may be necessary or appropriate (A) to produce in each Fiscal Year Net Revenues which will in each Fiscal Year at least equal the aggregate System Debt Service Expenses payable in such Fiscal Year and (B) to produce in each Fiscal Year Net Revenues which, when combined with the amount of Available Funds, will in each Fiscal Year equal to (i) 1.25 times the aggregate Debt Service Expenses payable in such Fiscal Year, plus (ii) deposits required to be made to the Rate Stabilization Account, if any, plus (iii) 100% of debt service payable with respect to Subordinate Debt. See “SECURITY FOR THE SERIES 2005A BONDS – Pledge of Airport Fund Revenues” above. The ability of the County to make Pledged Installments with respect to the Series 2005A Bonds depends on the ability of the Airport System to generate Net Revenues in the levels required by the Master Pledge Agreement. Although, as more particularly described herein, the County expects that sufficient revenues will be generated through rental payments derived from Leases and other fees charged in connection with the Airport System, there is no assurance that such mechanisms will continue to be available throughout the term of the Series 2005A Bonds or, if available, will result in the generation of Net Revenues in the amounts required by the Master Pledge Agreement. As a result, the County’s covenant does not constitute a guarantee that sufficient Net Revenues will be available to make the Pledged Installments. Failure to receive the Pledged Installments may impair the Agency’s ability to pay debt service on the Series 2005A Bonds.

## **Loss of Lease Revenues**

The complete or partial destruction of the property subject to the Leases may reduce the amount of Airport Fund Revenues available to pay the Pledged Installments. The County is a loss payee on the structures relating to the Leases for damage caused by fire or earthquake. The standard lease form, used by the County, however, does not require a tenant to provide rental income insurance. Accordingly, the loss or destruction of a site may adversely affect the amount of rental payments received by the County.

## **Environmental Liabilities of Airport System**

The Enterprise Fund as landowner of the Airport System is responsible for compliance with Federal, State and Local environment laws and regulations. Contamination of the air, soil, groundwater or storm water originating from sources on airport property pose an ongoing liability for the Enterprise Fund. The risks associated with this liability can be divided between transferable risks for which the Enterprise Fund is secondarily liable, and retained risks, which are those risks for which the Enterprise Fund is primarily liable.

*Transferable Risks.* Lessee activities, including the handling, storage, usage and disposal of hazardous substances, and from the emission of pollutants into the air, are liabilities assumed by business entities leasing property from the County. Airport leases require the lessee to comply with all laws and regulations and that the lessee indemnify the County for any damages resulting from the lessee’s use and occupancy of the premises, or from the actions of third parties on the leased premises. The majority of the leases contain a specific Hazardous Waste clause, developed by County Counsel, by which lessees assume liability for hazardous waste contamination and compliance with environment laws and regulations. Businesses operating on County Airport System property are subject to inspection and regulation by various agencies, including the County Hazardous Materials Management Division of the Department of Environmental Health. When required to, these businesses maintain permits to use and store hazardous materials on the lease premises. Environmental laws and regulations typically declare that liability for compliance is joint and several. Accordingly, even the transferable risks are potentially the responsibility of the County in the event the lessee is unwilling or unable to comply with the environment laws and

regulations. To ensure lessee compliance with environmental law and regulations and other Lease conditions, airport staff conduct annual leasehold inspections.

*Retained Risks.* The Airport System is primarily liable for environmental compliance on unleased property; e.g., public property under the direct control of the County. This would include the handling, storage, usage and disposal of hazardous materials by County Airport personnel and contractors performing services on such property. Airports personnel operate under CAL OSHA standards and the storage and disposal of hazardous materials is limited to petroleum products. All contractors performing services relating to airport construction/improvement projects operate under contracts developed by County Counsel. These contracts contain clauses similar to those contained in airport leases for transferring liability for legal and regulatory compliance to the contractor.

The Enterprise Fund could be held liable for any environmental damage from activities on airport property. Such liabilities could reduce the amount of Net Revenues available to make the Pledged Installments. Furthermore, contamination of a site could make such property unleaseable or reduce the amount of lease payments the County could charge for the property. Accordingly, both Tax Revenues and Airport Fund Revenues may be adversely affected by any potential contamination of such property, and in particular if such contamination occurs in the Project Area.

### **Certain Bankruptcy Risks**

The enforceability of the rights and remedies of the owners of the Series 2005A Bonds and the obligations of the Agency may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the Series 2005A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

### **Secondary Market**

There can be no guarantee that there will be a secondary market for the Series 2005A Bonds, or, if a secondary market exists, that such Series 2005A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS" herein, interest on the Series 2005A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date such Series 2005A Bonds were issued as a result of future acts or omissions of the Agency in violation of its covenants contained in the Indenture. Should such an event of taxability occur, the Series 2005A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity.

## **Risk of Earthquake**

There are several faults in and near the San Diego area that pose earthquake hazards. The Rose Canyon fault zone extends from La Jolla to San Diego Bay and is considered capable of producing a large, damaging earthquake. In the 1997 Uniform Building Code (UBC) the County is assigned to Seismic Zone 4, which is the same seismic zone assigned to Los Angeles and San Francisco.

If an earthquake were to substantially damage or destroy taxable property within the Project Area, the assessed valuation of such property would be reduced and the airport could be rendered unusable for some period of time. Any such reduction of assessed valuations could result in a reduction of the Tax Revenues and the availability of Airport Fund Revenues that secure the Series 2005A Bonds, which in turn could impair the ability of the Agency to make payments of principal of and/or interest on the Series 2005A Bonds when due.

## **Teeter Plan**

While the County of San Diego has adopted a “Teeter Plan” (see “TAX ALLOCATION FINANCING — Property Tax Collection Procedures”), the Agency elected not to participate and is therefore at risk with respect to property tax payment delinquencies in the Project Area.

## **Concentration of Land Ownership**

Based upon Fiscal Year 2005-06 assessed value data as of January 1, 2005, 51.9% of the net assessed property value in the Project Area is owned by the ten largest taxpayers. The inability or unwillingness of such taxpayers to pay property taxes on their property in the Project Area might have an adverse effect on the Agency’s ability to repay the Series 2005A Bonds. In addition, as a result of the high concentration of land ownership in the Project Area, decreases in the assessed value of one or more parcels of land may have a significant impact on the Tax Revenues. See “THE GILLESPIE FIELD REDEVELOPMENT PROJECT — Ten Largest Taxpayers” herein.

## **Unsecured Aircraft Property**

Based upon Fiscal Year 2005-06 assessed value data as of January 1, 2005, 38% of the net assessed property value in the Project Area is unsecured aircraft property. Such property is a transitory component of total assessed value and may be removed from the Project Area at any point in time, and accordingly, must be viewed as a highly volatile component of assessed value in the Project Area. See Table 4 of APPENDIX A — “FISCAL CONSULTANT’S REPORT.” As shown in Table 9 of the Fiscal Consultant’s Report, assessed value for aircraft property has been reduced from \$100,487,100 in Fiscal Year 2005-06 to \$65,000,000 for Fiscal Years thereafter. This reduction is due to the removal of aircraft property from Gillespie Field which is now shown in the assessed value aircraft property for Fiscal Year 2005-06, as well as to the general volatility of this category of assessed value. P&D Aviation, a Division of P&D Consultants, Inc. prepared an Airport Layout Plan Narrative Plan for Gillespie Field dated September, 2005 which forecasts for Gillespie Field a baseline competitive position in the market similar to historic circumstances, as well as increases in the number of aircraft of all types over the period studied. **While the Agency and the County have no way of predicting when or if aircraft property might be removed from the Project Area, the Agency and the County believe the projection of aircraft value for future fiscal years at \$65,000,000 is reasonable. The removal of aircraft property from the Project Area, however, could have a significant impact on Tax Revenues.**

## TAX ALLOCATION FINANCING

### Introduction

The Law and the California Constitution provide a method for financing and refinancing redevelopment projects based upon an allocation of taxes collected within a project area. First, the assessed valuation of the taxable property in a project area last equalized prior to adoption of the redevelopment plan is established and becomes the base roll. Thereafter, except for any period during which the assessed valuation drops below the base year level, the taxing agencies on behalf of which taxes are levied on property within the project area will receive the taxes produced by the levy of the then current tax rate upon the base roll. Except as discussed in the following paragraph, taxes collected upon any increase in the assessed valuation of the taxable property in a project area over the levy upon the base roll may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing the redevelopment project. Redevelopment agencies themselves have no authority to levy taxes on property and must look specifically to the allocation of taxes produced as above indicated.

The California Legislature placed on the ballot for the November 1988, general election Proposition No. 87 (Assembly Constitutional Amendment No. 56) pertaining to allocation of tax increment revenues. This measure, which was approved by the electorate, authorized the Legislature to cause tax increment revenues attributable to certain increases in tax rates occurring after January 1, 1989, to be allocated to the entities on whose behalf such increased tax rates are levied rather than to the Agency, as would have been the case under prior law. The measure applies to tax rates levied to pay principal of and interest on general obligation bonds approved by the voters on or after January 1, 1989. Assembly Bill 89 (Statutes of 1989, Chapter 250), which implements this Constitutional Amendment, became effective on January 1, 1990. The Agency's projection of tax revenues to be allocated to the Agency does not assume any increase in the tax rate applicable to properties within the Project Area.

### Property Tax Rate and Appropriation Limitations

#### *Article XIII A of State Constitution*

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in various other minor or technical ways.

The Agency has no power to levy and collect taxes. Any further reduction in the tax rate or the implementation of any constitutional or legislative property tax de-emphasis will reduce tax increment

revenues, and, accordingly, would have an adverse impact on the ability of the Agency to pay debt service on the Series 2005A Bonds.

### *Legislation Implementing Article XIII A*

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

### *Article XIII B of State Constitution*

An initiative to amend the California constitution entitled “Limitation of Government Appropriations,” was approved on September 6, 1979, thereby adding Article XIII B to the California Constitution (“Article XIII B”). Under Article XIII B, as amended, state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.”

The California State Legislature, by Statutes of 1980, Chapter 1342 enacted a provision of the Law (Health and Safety Code Section 33678) providing that the allocation and payment of taxes to an agency for the purpose of paying principal of or interest on loans, advances or indebtedness incurred for redevelopment activity as defined in the statute will not be deemed the receipt by the Agency of proceeds of taxes levied by or on behalf of an agency within the meaning or for the purpose of Article XIII B of the State Constitution, nor will 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 purposes of Article XIII B of the State Constitution or any statutory provision enacted in implementation of Article XIII B.

### **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988-89 Fiscal Year, will be allocated as follows: (1) each jurisdiction, including the Project Area, will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

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

The portion of Tax Revenues allocable to the Agency with respect to the Project Area and attributable to unitary property is expected to be \$2,222 for Fiscal Year 2004-05. The Agency cannot predict the effect of



any future litigation or settlement agreements concerning these matters on the amount of Tax Revenues received or to be received by the Agency.

### **Property Tax Administrative Costs**

In 1990, SB 2557, and in 1992, SB 1559, authorized county auditors to determine property tax administrative costs proportionately attributable to local jurisdictions and to charge agencies for such costs. The charge resulting from this legislation with respect to the Project Area was \$12,055 for Fiscal Year 2004-05.

The payments made as property tax administrative charges are considered tax increment for purposes of computation of the housing set-aside or the determination of compliance with tax increment limits in the numerical information set forth herein.

### **Property Tax Collection Procedures**

For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing state-assessed public utilities property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.” A tax levied on unsecured property does not become a lien against the unsecured property but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has a priority over all other liens arising pursuant to California law on the secured property, regardless of the time of creation of the other liens.

Property taxes on the secured roll are due in two installments, on July 1 and February 1 of each Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and delinquent penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector.

Current law provides for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on the following August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1-1/2% per month begins to accrue on the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recording in the County Recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

In August 1993, the County notified all taxing agencies, districts, redevelopment agencies and non-county treasury legal depositories of an alternate, elective property tax disbursement procedure, formally known as the Alternative Method of Tax Apportionment. Under the new procedure, the notified entities would be held harmless from property tax payment delinquencies in their jurisdictions in exchange for County retention of penalties and interest income derived when delinquent taxes are eventually paid. Tax

revenues allocated to local entities would still reflect adjustments to the tax roll and property tax refunds. The procedure, otherwise known as the Teeter Plan, became effective as of June 30, 1993 for fiscal year 1993-94 and included all entities whose legislative bodies passed a resolution by October 15, 1993, declaring such entity's election to participate in the program. The Agency did not elect to participate in the County's Teeter Plan and is therefore at risk with respect to property tax payment delinquencies in the Project Area.

Current tax payment practices by the County provide for payment to the Agency of approximately 50% of the secured taxes and 96% of the unsecured taxes by mid-January of each year, an additional 36% of the secured taxes by mid-April of each year, and the balance of the secured and unsecured tax collections (excluding delinquency collections which are paid to the Agency as they are collected) by mid-July.

### **Plan Limitations**

California Redevelopment Law requires the Agency to establish limits on the amount of tax increment which may be divided and allocated to the Agency, a time limit on establishing loans, advances, and indebtedness and a limit on the amount of bonded indebtedness which may be outstanding at any one time.

The Redevelopment Plan for the Project Area (the "Plan") provides for tax increment limit of \$80,000,000 net of any tax increment which is paid directly or indirectly to an affected taxing agency pursuant to Redevelopment Law Section 33401 and/or Section 33676 and a bonded indebtedness limit of \$40,000,000. The projections of the Fiscal Consultant contained in Table 9 of Appendix A indicate that the tax increment limit will not be reached during the remaining time for the Project Area to collect Tax Revenues; however, should growth in assessed values increase at a faster rate than projected this limit could be reached. To insure that this limit will not impair the ability of the Agency to collect Tax Revenues to pay debt service on the Series 2005A Bonds, the Agency has covenanted to monitor the receipt of all tax increment revenues and under certain conditions to transfer funds to the Trustee for deposit in the Redemption Account for the redemption, prepayment or defeasance of Bonds. See APPENDIX D — "DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Limit On Indebtedness."

The Plan, as amended by San Diego County Ordinance No. 8471 on November 8, 1994, provides that the Plan will be effective for 40 years from the date of adoption of the ordinance approving the Plan. Additionally, for five years following the date when the effectiveness of the Plan terminates, the Agency will retain the authority to pay previously incurred indebtedness or obligations, to receive property taxes to pay such indebtedness or obligations, and to enforce any existing covenants, contracts, or other obligations. The Plan, as amended, provides for a 20-year limit for incurring debt, through July 7, 2007.

On October 10, 2001 the Governor of the State signed into law Senate Bill 211 ("SB 211"), which allows redevelopment agencies to eliminate the time limits on their ability to incur debt for project areas established prior to January 1, 1994. Additionally, SB 211 allows redevelopment agencies to extend the termination date of their redevelopment plans and the deadline for the receipt of tax increment for the repayment of debt by 10 years for project areas established prior to January 1, 1994. In order to extend the termination of the redevelopment plans or the deadline for the receipt of tax increment for the repayment of debt, the redevelopment agency must make certain findings of blight in the applicable project areas. Additionally, if a redevelopment agency elects to extend the time limits on the incurrence of debt, the termination of the redevelopment plans or the deadline for the receipt of tax increment for the repayment of debt, the redevelopment agency must make certain additional statutory pass-throughs to other taxing entities. The Agency is not currently planning on extending any of the Redevelopment Plan limitations pursuant to SB 211.

Pursuant to Senate Bill 1045, adopted in connection with the approval of State Budget for Fiscal Year 2003-2004, redevelopment agencies were allowed to extend the effective date of their redevelopment plans and the date to receive tax increment revenues by one year. The Agency has not adopted, and has no current plans

to adopt, an ordinance extending such dates pursuant to Senate Bill 1045. Pursuant to Senate Bill 1096 adopted in connection with the approval of State Budget for Fiscal Year 2004-2005, redevelopment agencies were allowed to extend the effective date of their redevelopment plans and the date to receive tax increment revenues under certain circumstances by up to two years. The Agency has not adopted, and has no current plans to adopt, an ordinance extending such dates pursuant to Senate Bill 1096.

The Agency may not receive and may not repay indebtedness with the proceeds from property taxes received pursuant to Section 33670 of the Law and the Plan beyond the dates for the areas indicated in Table 1 below, except to repay debt to be paid from the Housing Fund established pursuant to Section 33334.3 of the Law and the Plan, or debt established in order to fulfill the Agency’s obligations under Section 33413 of the Law and the Plan.

**TABLE 1**  
**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**GILLESPIE FIELD PROJECT**  
**Redevelopment Plan Limits**

<b>Time Limits<sup>(1)</sup></b>	
Incur Debt	July 7, 2007
Plan Effectiveness	July 7, 2027
Increment Collection	July 7, 2032
<b>Financial Limits</b>	
Tax Increment <sup>(2)</sup>	\$80,000,000
Bond Indebtedness	\$40,000,000

<sup>(1)</sup> Dates may be extended pursuant to SB 211, SB 1045 and SB 1096, as discussed above.

<sup>(2)</sup> The tax increment limit is net of any tax increment which is paid to an affected taxing agency pursuant to the Law.

**Low and Moderate Income Housing Fund**

Chapter 1337 Statutes of 1976, added Section 33334.2 and 33334.3 to the Law requiring redevelopment agencies to set aside 20 percent of all tax increment derived from redevelopment project areas adopted after December 31, 1976, into a Low and Moderate Income Housing Fund. This low and moderate income housing requirement can be reduced or eliminated if a redevelopment agency finds that: (1) no need exists in the community to improve, increase or preserve the supply of low and moderate income housing, including housing for very low income households; (2) that some stated percentage less than 20 percent of the tax increment is sufficient to meet the housing needs of the community, including its share of the regional housing needs of persons and families of low or moderate income and very low income households; or (3) that other substantial efforts, including the obligation of funds from state, local and federal sources for low and moderate income housing of equivalent impact are being provided for in the community.

Chapter 1135, Statutes of 1985 amended Section 33334.3 and added Sections 33334.6 and 33334.7 to extend the requirement for redevelopment agencies to set aside into a Low and Moderate Income Housing Fund, 20 percent of tax increment to redevelopment project areas adopted prior to January 1, 1977, beginning with fiscal year 1985-86 revenues. Pursuant to Chapter 1135, an agency may make the same findings described above to reduce or eliminate the low and moderate income housing requirement. However, Chapter 997, Statutes of 1989, added Section 33334.14 to the Law which provides that a redevelopment

agency with merged project areas may not make the findings described above as to avoid or reduce its obligations to deposit taxes from merged project areas in the Low and Moderate Income Housing Fund.

The Agency currently intends to set aside the full 20 percent of tax increment revenue each year.

### **Assembly Bill 1290**

Assembly Bill 1290 (being Chapter 942, Statutes of 1993) (“AB 1290”) became law on January 1, 1994. AB 1290 contains several significant changes in the Law, including time limitations for incurring and repaying loans, advances and indebtedness repayable from tax increment revenues. The Agency is of the opinion that the provisions of AB 1290, including these new time limitations as they apply to the Project Area, will not have an adverse impact on the payment of debt service on the Series 2005A Bonds on a timely basis, and the Agency does not expect that the provisions of AB 1290 will have an adverse impact on the undertaking by the Agency of future redevelopment activities within the Project Area.

### **Pass-Through Arrangements**

The Agency and the County of San Diego entered into a settlement agreement with the Cajon Valley Union School District, the Santee School District, the Grossmont Union High School District, and the County Superintendent of Schools (collectively, the “School Districts”) pertaining to the Project Area on June 24, 1989. Under the agreement, the School Districts are entitled to receive certain payments. The Metropolitan Water District of Southern California and Grossmont Community College District also receive a share of the tax revenues attributable to the 2% maximum inflationary factor under California law. See APPENDIX A — “FISCAL CONSULTANT’S REPORT” for the Fiscal Consultant’s projections of the pass-through payments to be made to other taxing entities. Such pass-through payments will not be available to the Agency to pay debt service on the Series 2005A Bonds.

## **THE AGENCY**

### **Agency Organization**

The Agency was formed on October 14, 1974 by County Ordinance No. 4393. Pursuant to the Redevelopment Law, the Board of Supervisors designated itself as the governing board for the Agency. The Agency is a separate public body which plans and implements projects in accordance with the requirements of the Redevelopment Law. The Project Area for which the Series 2005A Bonds are being issued is one of the Agency’s two redevelopment project areas.

All powers of the Agency are legally vested in its five members, who are elected to the Board of Supervisors for four year terms. The Agency exercises governmental functions in carrying out projects and has sufficiently broad authority to acquire, develop, administer and sell or lease property.

The current chair of the Agency is Pam Slater-Price, who was elected as the Supervisor from District No. 3 in November 1992. Other members of the Board of Supervisors and Agency Board are shown below. Walter F. Ekard, the Chief Administrative Officer of the County since May 1999, serves as the Executive Director of the Agency.

<u>Agency Member</u>	<u>Term Expires</u>
Pam Slater-Price, Chairwoman	12/2008
Bill Horn, Vice Chairman	12/2006
Greg Cox	12/2009
Diane Jacob	12/2008
Ron Roberts	12/2006

**Powers**

The Agency is charged with the responsibility of eliminating blight within the redevelopment project areas through the process of redevelopment. Generally, this process culminates when the Agency disposes of land for development by the private sector. Before this can be accomplished, the Agency must complete the process of acquiring and assembling the necessary sites, relocating residents and businesses, demolishing the deteriorated improvements, grading and preparing the sites for purchase by developers and providing for ancillary off-site improvements.

All powers of the Agency are vested in its five members. The Agency exercises governmental functions in carrying out projects, and has sufficiently broad authority to acquire, develop, administer and sell or lease property, including the right of eminent domain and the right to issue bonds, notes and other evidences of indebtedness and to expand their proceeds.

The Agency can clear buildings and other improvements and develop as a building site any real property owned or acquired, and in connection with such development, cause streets, highways and sidewalks to be constructed or reconstructed and public utilities to be installed.

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

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

**THE GILLESPIE FIELD REDEVELOPMENT PROJECT**

The Redevelopment Plan for the Gillespie Field Redevelopment Project Area (the “Project Area”) was adopted by Ordinance No. 7399 (New Series) of the Board of Supervisors on July 7, 1987 and by Ordinance No. 4036 of the El Cajon City Council on July 14, 1987. The Project Area is a contiguous area of about 746 acres located at Gillespie Field Airport in the City of El Cajon. The Project Area is adjacent to unincorporated territory. Existing airport operations and fixed based operators occupy about 342 acres within the Project Area.

## **Gillespie Field Airport**

The oldest and largest County-owned airport is Gillespie Field, located in El Cajon. Freeway access from Interstate 8 (east) is from Johnson Avenue and from Highway 67 (north) by Bradley Avenue. Almost 210,000 takeoffs and landings were recorded in 2004 at this general aviation airport, which is home to the Commemorative Air Force Museum, San Diego Aerospace Museum Auxiliary, Antique Airplane Association, Civil Air Patrol, Gillespie Field Eagles, Gillespie Pilots Association and the 99's (a women's flying group first established by Amelia Earhart). Existing industrial development on airport property is providing many jobs and significant revenue for surrounding communities and the County of San Diego.

Gillespie Field has two east/west runways, one north/south runway and numerous taxiways. Runways 27R/9L, runway 17/35 and all taxiways are lighted. The airport has navigational landing aids for pilots. Gillespie Field has numerous Fixed Base Operators which offer many services such as aircraft rental, flight training, aircraft maintenance, charter flights, pilot accessory shops, avionics repair and sales, food services, hangar and tiedown facilities.

## **General Project Goals and Objectives**

The Project Area was established with the goal of alleviating deterioration and economic stagnation of the Project Area attributable primarily to inadequate public improvements. A major goal of the Project Area is to facilitate industrial and commercial development which will generate a substantial number of permanent jobs, and thereby assist in correcting the population/employment imbalance in Eastern San Diego County (the "East County").

The Redevelopment Plan identifies the following specific objectives (among others):

- Improvement of inadequate public utilities, infrastructure and facilities which limit or prevent development proposed under the Gillespie Field Master Plan.
- Development of property in a manner which ensures that industrial, commercial and public facilities in the Project Area are consistent with the goals, policies, objectives, standards, guidelines and requirements in the City of El Cajon's adopted General Plan and Zoning Ordinance and in the Gillespie Field Master Plan.
- Elimination of circulation problems which impact vehicular traffic and limit productive use of properties within the Project Area.
- Promotion of productive and efficient land use to improve and increase the tax base.
- Mitigation of environmental deficiencies, including elimination of unstable slope conditions to allow safe development and protect adjacent off-site residential development, and protection of environmentally sensitive resources in the Project Area.
- Enhancement of Gillespie Field Airport to ensure a wide range of general aviation services in the East County.

## **History of the Gillespie Field Project**

Prior to creation of the Project Area in 1987, the County Airports Division began to develop its holdings of commercial/industrial property at Gillespie Field pursuant to long term land leases. Construction of the first phase of the Gillespie Field Industrial Park began in 1977. Approximately 70 gross acres

consisting of 32 individual lots were completely developed and occupied by 1983. Light manufacturing and product distribution businesses are predominate in the park; however, other businesses include several wholesale supply companies and one condominium project housing small retail establishments.

The County's newest commercial/industrial subdivision at Gillespie Field is the Cuyamaca West Business Park. The Business Park, which contains 46.11 net leasable acres, was constructed in two phases providing 26 lots for private development. Improvements included extensive grading activity, including buttressing of slopes, construction of the street system and installation of utilities, street lighting, sidewalk and landscaping and an irrigation system. All lots were optioned for long-term lease and light industrial / research use. Development has been constructed on 25 parcels.

Businesses in the Business Park currently include Taylor Guitars, San Diego Defense and Space Technology Consortium, ARCOMS, Inc. (Enerdyne Technologies Inc), Nan MaKay and Associates, New Brunswick Industries and Vision Systems.

### **Current Plans for the Gillespie Field Project**

The County owns the underlying real property in the Project Area and leases such real property to private developers. A more detailed description of the currently known future development in the Project Area are as follows:

*Northwest Corner of Weld and Cuyamaca* – Negotiations are currently underway for the lease and development of a 40-acre site at the northwest corner of Weld and Cuyamaca. Current plans for the site include 470,000 square feet of office, research and development, industrial and warehouse space. Infrastructure improvements will also be included in the project. It is currently anticipated that the final draft of the project will be considered by the Board of Supervisors of the County of San Diego in December of 2005, with the initial phase of construction to be complete in Fiscal Year 2007-08 and the full project to be completed by Fiscal Year 2009-10. This project is expected to provide an estimated increase of \$45,850,000 in assessed value.

*Cuyamaca West Business Park* – In Fiscal Year 2005-06 construction will begin on Cuyamaca West Unit II Lot, the last remaining lot in the Cuyamaca West Business Park, which will consist of two 2-story commercial/industrial buildings. These buildings are expected to add a total of 21,051 square feet and are planned for completion in the Fall of 2006. This project is expected to provide an estimated increase of \$947,000 in assessed value.

*Various Miscellaneous Lots* – A 70-acre site adjacent to Gillespie Airport terminal is available for lease and development by the private sector for aviation related business. An environmental review has been completed by the County and it is anticipated that improvements could begin as soon as Fiscal Year 2007-08. Plans are currently being developed for leasehold improvements to a site on the northeast side of Marshall Avenue. Improvements could include the addition of hangars and office space. An 11-acre parcel on the west side of Marshall Avenue is currently anticipated to be leased and utilized for light industrial development following approval by the Federal Aviation Administration. A 20,000 square foot parcel at the southeast corner of Cuyamaca and Marshall Avenue is currently available for lease and development. No estimation can be given at this time as to the timeframe for development of these projects and the increase, if any, in assessed value to the Project Area.



**Ten Largest Taxpayers**

Table 2 sets forth the ten largest taxpayers in the Project Area. The cumulative taxable value of the ten largest taxpayers totals \$138,193,647 which represents approximately 51.9% of the total secured net assessed value of the Project Area.

**TABLE 2  
REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
GILLESPIE FIELD PROJECT  
Ten Largest Tax Payers  
Fiscal Year 2005-06**

<b>Owner Name</b>	<b>Parcel Count</b>	<b>Land Use</b>	<b>Net Assessed Value</b>	<b>Percent of Project Area Net Assessed Value</b>
Irwin Mark Jacobs Trustee <sup>(1)</sup>	n/a	Aircraft Unsecured	\$ 34,510,000	13.0%
Pacific Gillespie Partners	11	Industrial, Commercial	31,919,870	12.0
Cuyamaca West Partners	11	Industrial	13,701,168	5.1
GC Air LLC	n/a	Aircraft Unsecured	13,196,200	5.0
GKN Aerospace Chem-tronics Inc.	4	Industrial	11,913,555	4.5%
Carpenter Special Products Corp	1	Industrial, Unsecured	7,550,060	2.8
Frank Goldberg	3	Industrial	7,293,526	2.7
Helf Properties	7	Industrial	6,384,054	2.4
Skyfarm LLC	n/a	Aircraft Unsecured	6,241,600	2.3
Taylor-Listug Inc.	n/a	Unsecured	5,483,614	2.1
<b>Total</b>	<b>37</b>		<b>\$138,193,647</b>	<b>51.9%</b>
Fiscal Year 2004-05 Net Secured and Unsecured Value			\$165,669,800	
Fiscal Year 2005-06 Net Aircraft Value			\$100,487,100	
Fiscal Year 2005-06 Net Assessed Value for Project Area			\$266,156,900	

Source: Rosenow Spevacek Group, Inc., 2005-06 Assessment Roll

<sup>(1)</sup> Aircraft has been removed from Gillespie Field—see discussion below.

*Discussion of Two Largest Secured Payers*

Irwin Mark Jacobs Trustee is the name in which certain aircraft located at Gillespie Field was registered. In February, 2005, that aircraft was transferred away from Gillespie Field. See “RISK FACTORS—Unsecured Aircraft Property.”

Pacific Gillespie Partners LLC and Gillespie Field Partners LLC are property development companies operated by Pacific Properties. This is the developer for the majority of the lots in the Cuyamaca West Business Park. Pacific Properties currently manages leases for 15 lots, all of which have been improved with concrete tilt up buildings and have been leased for such uses as research and development, corporate offices and distribution and light manufacturing. The land leases were part of a Development Agreement and Option to Lease that commenced in 1997. The land leases are for 55 years terminating in 2052 through 2055.

**TAX INCREMENT REVENUES**

The Agency has retained Rosenow Spevacek Group Inc. to analyze the Project Area and its Tax Revenues. Their report is included as Appendix A and should be read in its entirety.

The Project Area's base year assessed valuation is \$56,405,596, of which \$38,949,956 is attributable to secured assessed value, \$4,861,090 is attributable to the unsecured assessed value and \$12,594,550 is attributable to Aircraft unsecured value. The total assessed valuation for Fiscal Year 2005-2006 is \$266,156,900 which produces a total incremental value of approximately \$209,751,304. Table 3 provides a summary of Gillespie Field Project Historical Assessed Valuations and Tax Increment Receipts for Fiscal Years 2000-01 through 2004-05.

**TABLE 3**  
**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**GILLESPIE FIELD PROJECT**  
**Historical Assessed Valuations and Tax Increment Receipts**  
**Fiscal Years 2000-01 — 2005-06**

	2001-02	Percent Change	2002-03	Percent Change	2003-04	Percent Change	2004-05	Percent Change	2005-06
<b>Assessed Values:</b>									
Land and Improvements:	\$113,361,419		\$124,886,292		\$136,536,427		\$141,915,169		\$147,369,119
Personal Property:	16,084,719		20,577,236		22,864,243		19,335,166		18,300,681
Aircraft:	<u>37,833,950</u>		<u>29,114,600</u>		<u>125,615,600</u>		<u>100,553,600</u>		<u>100,487,100</u>
<b>Total Assessed Values:</b>	<b>\$167,280,088</b>	4.4%	<b>\$174,578,128</b>	63.3%	<b>\$285,016,270</b>	-8.1%	<b>\$261,803,935</b>	1.7%	<b>\$266,156,900</b>
LESS: <i>BASE YEAR:</i>	(56,405,596)		(56,405,596)		(56,405,596)		(56,405,596)		(56,405,596)
<b>INCREMENTAL AV:</b>	<u>\$110,874,492</u>	6.6%	<u>\$118,172,532</u>	93.5%	<u>\$228,610,674</u>	-10.2%	<u>\$205,398,339</u>	2.1%	<u>\$209,751,304</u>
Incremental Revenue:	1,108,745		1,181,725		2,286,107		2,053,983		2,097,513
Utility Revenue:	<u>1,752</u>		<u>1,668</u>		<u>2,195</u>		<u>2,222</u>		<u>2,222</u>
<b>Total Estimated Revenue:</b>	<b>\$1,110,497</b>		<b>\$1,183,393</b>		<b>\$2,288,302</b>		<b>\$2,056,205</b>		<b>\$2,099,735</b>
<b>Actual Revenues Paid by County</b>									
Secured & Unsecured:	1,139,138		1,186,307		2,296,656		1,912,814		<b>Not Available</b>
Supplemental:	74,263		52,124		59,317		24,155		
Unitary Utility:	1,732		1,640		2,169		2,220		
Health & Safety Code Pass Through:	(11,571)		(12,389)		(13,263)		(14,127)		
Corrections & Refunds/Adjustments:	(8,986)		(6,055)		(352,980)		(9,110)		
Delinquencies, Penalties & Interest:	16,634		16,913		18,379		18,641		
Property Tax Administration Costs:	<u>(8292)</u>		<u>(10,380)</u>		<u>(11,228)</u>		<u>(12,055)</u>		
<b>Net Revenue Paid:</b>	<b>\$1,202,918</b>	2.10%	<b>\$1,228,158</b>	62.77%	<b>\$1,999,049</b>	-3.83%	<b>\$1,922,538</b>		
Low/Mod Housing Set-Aside	(240,584)		<u>(240,584)</u>		<u>(399,810)</u>		<u>(384,508)</u>		
<b>Net Revenue Received by Agency:</b>	<b>\$962,335</b>	2.10%	<b>\$982,527</b>	62.77%	<b>\$1,599,239</b>	3.83%	<b>\$1,538,030</b>		

Source: Rosenow Spevacek Group Inc.

Tax Revenues consist primarily of tax increment revenues generated from the application of appropriate tax rates to the incremental taxable value of the Project Area. Other sources of Tax Revenues include unitary property taxes and unsecured aircraft revenue. Reductions in Tax Revenues received by the Agency result from declining tax rates, property tax administrative costs and refunds resulting from successful appeals of assessed values. For a more complete discussion of how the various adjustments are calculated, see APPENDIX A — “FISCAL CONSULTANT’S REPORT.”

### **Projected Tax Revenues**

The following table shows the projected Tax Revenues for the Project Area for the Fiscal Years 2005-06 through 2031-32. While the projections are based on assumptions which are believed by the Fiscal Consultant to be reasonable, there can be no assurance that such projections will be realized. See “RISK FACTORS” herein. The projections of Tax Revenues are based on the following assumptions:

(1) Real property values are assumed to increase 2% annually for inflation, as allowed by Article XIII A of the California Constitution. No inflationary trend is applied to personal property value and the personal property assessed valuation is assumed in each Fiscal Year presented below to remain at the Fiscal Year 2005-06 amount. See “TAX ALLOCATION FINANCING — Property Tax Rate and Appropriation Limitations” herein.

(2) Property tax rates are assumed to be 1%. See “TAX ALLOCATION FINANCING — Property Tax Rate and Appropriation Limitations” herein.

(3) Aircraft assessed values are reduced to \$65,000,000 following Fiscal Year 2005-06, and remain at that level. See “RISK FACTORS —Unsecured Aircraft Property” for a discussion of the potential volatility in Tax Revenues derived from aircraft property.

(4) As shown in Table 6 of APPENDIX A – “FISCAL CONSULTANT’S REPORT,” 51 assessment appeals have been filed within the Project Area in the last 5 years. All but six of those appeals have been resolved resulting in a total assessed value reduction of \$6,134,208. The six pending appeals represent a potential reduction of \$5,068,885; however, the projection of Tax Revenues in the following table does not assume any reduction in assessed values for these pending appeals.

**TABLE 4**  
**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**GILLESPIE FIELD PROJECT**  
**Projected Tax Increment Revenues**

<b>Fiscal Year (June 30)</b>	<b>Land and Imp. Assessed Valuation</b>	<b>Personal Prop. Assessed Valuation</b>	<b>Aircraft Assessed Value</b>	<b>Total Assessed Value</b>	<b>Annual Incremental Revenue</b>	<b>Estimate Unitary Revenue</b>	<b>Gross Tax Increment Revenue</b>	<b>Total Pass- Thru Payment</b>	<b>Remaining Revenue</b>	<b>Housing Set Aside</b>	<b>Remaining Revenue for Debt Service</b>
2006	147,369,119	18,300,681	100,487,100	266,156,900	2,097,513	2,222	2,099,735	468,213	1,631,522	416,884	1,214,638
2007	150,316,501	18,300,681	65,000,000	233,617,182	1,772,116	2,222	1,774,338	296,331	1,478,007	351,597	1,126,410
2008	153,322,831	18,300,681	65,000,000	236,623,512	1,802,179	2,222	1,804,401	299,513	1,504,888	357,398	1,147,490
2009	156,389,288	18,300,681	65,000,000	239,689,969	1,832,844	2,222	1,835,066	302,747	1,532,319	363,316	1,169,004
2010	159,517,074	18,300,681	65,000,000	242,817,755	1,864,122	2,222	1,866,344	306,069	1,560,275	369,351	1,190,924
2011	162,707,415	18,300,681	65,000,000	246,008,096	1,896,025	2,222	1,898,247	309,424	1,588,823	375,507	1,213,315
2012	165,961,564	18,300,681	65,000,000	249,262,245	1,928,566	2,222	1,930,789	312,881	1,617,908	381,787	1,236,121
2013	169,280,795	18,300,681	65,000,000	252,581,476	1,961,759	2,222	1,963,981	96,969	1,867,012	388,192	1,478,821
2014	172,666,411	18,300,681	65,000,000	255,967,092	1,995,615	2,222	1,997,837	85,798	1,912,039	394,725	1,517,314
2015	176,119,739	18,300,681	65,000,000	259,420,420	2,030,148	2,222	2,032,370	90,103	1,942,268	401,388	1,540,879
2016	179,642,134	18,300,681	65,000,000	262,942,815	2,065,372	2,222	2,067,594	94,493	1,973,101	408,185	1,564,916
2017	183,234,976	18,300,681	65,000,000	266,535,657	2,101,301	2,222	2,103,523	98,971	2,004,551	415,118	1,589,433
2018	186,899,676	18,300,681	65,000,000	270,200,357	2,137,948	2,222	2,140,170	103,539	2,036,631	422,190	1,614,441
2019	190,637,669	18,300,681	65,000,000	273,938,350	2,175,328	2,222	2,177,550	108,198	2,069,352	429,403	1,639,949
2020	194,450,423	18,300,681	65,000,000	277,751,104	2,213,455	2,222	2,215,677	112,950	2,102,727	436,760	1,665,967
2021	198,339,431	18,300,681	65,000,000	281,640,112	2,252,345	2,222	2,254,567	117,798	2,136,770	444,265	1,692,505
2022	202,306,220	18,300,681	65,000,000	285,606,901	2,292,013	2,222	2,294,235	122,742	2,171,493	451,919	1,719,574
2023	206,352,344	18,300,681	65,000,000	289,653,025	2,332,474	2,222	2,334,696	127,785	2,206,911	459,727	1,747,185
2024	210,479,391	18,300,681	65,000,000	293,780,072	2,373,745	2,222	2,375,967	132,929	2,243,038	467,690	1,775,347
2025	214,688,979	18,300,681	65,000,000	297,989,660	2,415,841	2,222	2,418,063	138,176	2,279,887	475,813	1,804,073
2026	218,982,759	18,300,681	65,000,000	302,283,440	2,458,778	2,222	2,461,000	143,528	2,317,473	484,099	1,833,374
2027	223,362,414	18,300,681	65,000,000	306,663,095	2,502,575	2,222	2,504,797	148,986	2,355,811	492,550	1,863,260
2028	227,829,662	18,300,681	65,000,000	311,130,343	2,547,247	2,222	2,549,470	154,555	2,394,915	501,170	1,893,745
2029	232,386,255	18,300,681	65,000,000	315,686,936	2,592,813	2,222	2,595,035	160,234	2,434,802	509,963	1,924,839
2030	237,033,980	18,300,681	65,000,000	320,334,661	2,639,291	2,222	2,641,513	166,633	2,471,880	518,931	1,956,948
2031	241,774,660	18,300,681	65,000,000	325,075,341	2,686,697	2,222	2,688,919	173,145	2,514,774	528,079	1,990,667
2032	246,610,153	18,300,681	65,000,000	329,910,834	2,735,052	2,222	2,737,274	179,673	2,554,601	537,410	2,024,197

Source: Rosenow Spevacek Group Inc.

## THE AIRPORT SYSTEM

### General Description and History

The County of San Diego has owned or operated airports since 1947 and since that time has grown into one of the largest regional airport systems in the State of California. The eight airports owned and operated by the County of San Diego include McClellan-Palomar Airport, a non-hub commercial service airport, and seven general aviation airports, including Gillespie Field, which also serves as a reliever facility, Ramona Airport, Fallbrook Community Airpark, Borrego Valley Airport, Jacumba Airport, Ocotillo Wells Airport and Agua Caliente Springs Airstrip. **The County's Airport System does not include San Diego International Airport (Lindbergh), the major airport serving the San Diego area.**

### Management and Operations

The County of San Diego has been involved in the management and operation of airports for over 50 years. County Airports is a Section within the Transportation Division of the Department of Public Works (the "County Airports"). Public Works Deputy Director Larry Watt is responsible for management of the Transportation Division. Airports Director Peter Drinkwater is responsible for overall management of the County Airport System, while Gillespie Field Airport Manager Roger Griffiths manages day to day operations of the airport. Additional Airports staff include one Program Coordinator, one Principal Airport Manager, an Airport Manager located at McClellan-Palomar Airport, one Airport Maintenance Supervisor, one Budget Analyst, one Supervising Real Property Agent, five Real Property Agents, and office, maintenance and operations support personnel, for a total staff of 32.

### Operating Revenues and Expenses

The Airports Section, operated as an Enterprise Fund pursuant to the Laws of the State of California and as established by Resolution of the Board of Supervisors on May 6, 1980, has extensive experience in utilizing State and Federal grant funds in maintaining and operating the airports, using both discretionary and entitlement funds; State capital improvement program funds, as well as individual grants and memorial gifts. These amounts are not available to pay debt service on the Series 2005A Bonds. In addition, operating revenue is generated by many diverse leases which permit reinvestment in infrastructure, industrial and aviation and non-aviation facilities, land acquisition, as well as matching grants.

Over the last three fiscal years, the Operating Revenues of the Airport System have averaged approximately \$7,492,000. See Table 6. Approximately 84 to 97% of Operating Revenues are received by the County as lessor under the Leases. The private land uses under the Leases include commercial/industrial developments and aviation related uses at five of the County's eight airport facilities. The balance of Operating Revenues come from tie-down receipts and other miscellaneous sources.

### Land Leases

The County Airports Division has been involved in the development and leasing of commercial/industrial property at Gillespie Field since 1977 when it began construction of Gillespie Field Industrial Park. Light manufacturing and product distribution businesses predominate in the 70 acre park which was fully leased by 1983. Other businesses include several wholesale supply companies and one condominium project housing small businesses. Ground rents on all of the lots within Gillespie Field

Industrial Park are periodically adjusted to reflect market rates and are currently set at \$3,293 monthly per net leasable acre.

The County's newest commercial/industrial subdivision at Gillespie Field is the Cuyamaca West Business Park. Agency improvements included extensive grading activity, including buttressing of slopes, and construction of a street system, utility improvements (sewer, water, electrical), street lighting, sidewalks, landscaping and an irrigation system.

Agency improvements were accomplished in two phases. Phase 1 construction, which was completed in FY 1989-90 utilizing loans from Airport Enterprise Fund, made 11 industrial lots available for private sector development. Research and development buildings have been constructed on these lots. Phase 2 infrastructure improvements, which were financed with funds from the Agency's Series 1995 Bonds and loans from the Airport Enterprise Fund, provided 17 lots for development. Private development of 16 of the lots has been completed and the final lot will be developed in FY 2005/06 with the construction of two commercial/industrial buildings. Approximately 1400 jobs were created as a result of development of the Cuyamaca West project area. Ground rents at Cuyamaca West Unit I average \$1,296 per acres per month. The County also receives a percentage of sublease rents for these lots that, in recent years, totals approximately \$155,000 annually. Ground rents at Cuyamaca West Unit II averages \$2,417 per acres per month (actual monthly rent range, based on location of lots, is between \$1,142 and \$3,488).

The two largest tax payers that occupy sites within the Project Area Area include Chem-Tronics and Pacific Gillespie Partners, LLC/Gillespie Field Partners, LLC. Chem-Tronics, an aerospace contractor that has leased property from the County since 1966, is the largest non-retail employer in the City of El Cajon. Chem-Tronics occupies about 22 acres of land, over half of which is on Gillespie Field property. Pacific Gillespie Partners, LLC/Gillespie Field Partners, LLC are property development companies operated by Pacific Properties. This is the developer for the majority of the lots in the Cuyamaca West Business Park. Pacific Properties currently manages leases for 15 lots, all of which have been improved with concrete tilt up buildings and include uses such as research and development, corporate offices, distribution and light manufacturing.

Table 5 shows the FY2005/06 AEF budgeted monthly rents at Gillespie Field, McClellan-Palomar Airport, and the Ramona and Borrego Airports pursuant to existing leases. Approximately 59% of the Airport Systems Operating Revenues are estimated to be derived from Gillespie Field Leases in 2005/06, with over \$4.5 million coming from existing Leases at Gillespie. Approximately 25% of Operating Revenues are projected to be derived from Leases at McClellan-Palomar Airport in Carlsbad, with the remaining 16% from Fallbrook, Ramona and Borrego Leases and miscellaneous sources.

**TABLE 5**  
**SAN DIEGO COUNTY AIRPORT ENTERPRISE FUND**  
**Estimated Operating Revenue from Land Leases in 2005/06**

Airport/Land Use	Monthly Rent <sup>(1)</sup>	Annualized Rent <sup>(2)</sup>	Percent of Total Operating Revenues
Fallbrook Airport Industrial/Commercial/Non-aviation Leases	\$ 14,233.73	\$ 170,804.73	2.2%
Fallbrook Aviation Leases	4,327.88	51,934.56	.7
Gillespie Field Industrial/ Commercial Leases	319,568.67	3,834,824.06	49.8
Gillespie Field Aviation Leases	61,506.40	738,076.78	9.6
McClellan-Palomar Airport Industrial/Commercial Leases	60,062.94	720,755.22	9.4
McClellan-Palomar Airport Aviation Leases	103,032.21	1,236,386.57	16.1
Ramona Industrial/Commercial	512.29	6,147.49	0.1
Ramona Aviation Leases	21,734.40	260,812.76	3.4
Borrego Aviation Leases	2,490.82	29,889.81	0.4
<b>Total Estimated Lease Revenue</b>	<b>\$587,469.33</b>	<b>\$7,049,631.98</b>	<b>91.7%</b>
Other Estimated Operating Revenue		650,000.00	8.3
<b>Total Projected Operating Revenue (2005/06)</b>		<b>\$7,699,631.98</b>	<b>100%</b>

<sup>(1)</sup> Scheduled monthly rent pursuant to existing Leases

<sup>(2)</sup> Monthly rent multiplied by 12 months

Source: County of San Diego

### Non-Operating Revenue and Expenses

Grants received from the Federal Aviation Administration (FAA) and other sources have varied considerably from year to year and are primarily dedicated to specific capital projects for which the grant was received. If grant money is not awarded, the projects related to such grants are not undertaken. The Airport System projects the approval of \$5.8 million and \$4.5 million in State and Federal grants for capital projects undertaken in 2005/06 and 2006/07, respectively. If received, such grants would be used for aviation related maintenance and capital projects such as sealing and re-striping runway 17/35 and taxiways at Gillespie Field, provide plans and specifications for construction of the McClellan-Palomar Airport Runway Safety Area Phase 1 (North Ramp & Taxiway), and design and construct a road for the air traffic control tower at Ramona Airport.

As shown in Table 7, the Airport System has averaged approximately \$123,000 per year in interest earnings during the fiscal years shown. Interest earnings are primarily attributable to the allocation of returns from funds invested in the County's Pooled Investment Fund. As of June 30, 2005, the Airport System had \$6,120,427.11 invested in the County's Pooled Investment Fund.

There can be no assurance that the Airport System's receipt of operating or non-operating revenues will continue at historic or projected levels or that its expenditures will not be greater than in the past.



## **Financial Results**

The Net Revenues of the Enterprise Fund available to pay the Pledged Installments consist primarily of Operating Revenues and interest income. While grant money is not available to pay the Pledged Installments, they are used by the County to pay certain Operating Expenses such as contracted services.

The County's Comprehensive Annual Report for Fiscal Year 2003-04 can be found at the following website: [http://www.sdcountry.ca.gov/auditor/annual\\_report04/index.html](http://www.sdcountry.ca.gov/auditor/annual_report04/index.html). Information regarding the County's Airport Enterprise Fund for such Fiscal Year and included in the three tables which follow for such Fiscal Year can be found on pages 139 through 141 of such Report. This reference is made only to such information on such pages and as such information exists as of the date of this Official Statement. Neither the County nor the Agency take responsibility for the continued accuracy of this internet address or for the timeliness of information posted there, and such information is not incorporated herein by such reference.

**TABLE 6**  
**SAN DIEGO COUNTY AIRPORT ENTERPRISE FUND**  
**Statement of Operating Revenues and Expenses**  
**For the Fiscal Years 2001/02 through 2005/06**  
**(\$000's)**

	(Audited)			(Unaudited)	(Budgeted)
	2001/02	2002/03	2003/04	2004/05	2005/06
<b>Operating Revenues:</b>					
Rents & Concessions	\$ 5,180	\$6,001	\$5,973	\$7,690	\$7,064
Royalties	0	0	257	307	252
Charges in Other Funds/Special District	4	893	358	3	0
Charges in Transit Enterprise Fund	125	0	0		0
Charges in General Fund (rent income)	73	191	99	85	194
Charges in ISF (rent income)	31	42	49	58	41
Aid from Other Gov. Agencies	28	109	345	203	150
Miscellaneous Operating Revenues	38	160	11		
<b>Total Operating Revenues</b>	<b>\$ 5,479</b>	<b>\$7,396</b>	<b>\$6,734</b>	<b>\$8,346</b>	<b>\$7,700</b>
<b>Operating Expenses:</b>					
Salaries	\$ 1,909	\$2,020	\$2,392	\$2,608	\$2,908
Repairs and Maintenance	236	455	344	991	321
Equipment Rental	153	521	282	216	271
Contracted Services <sup>(1)</sup>	2,773	2,732	1,463	2,346	2,716
Depreciation	2,118	769	767	950	906
Utilities	137	166	120	131	150
Public Liability Insurance	64	104	107	105	121
Information Technology	140	128	131	106	161
Minor Equipment	27	26	49	48	70
Other Operating Expenses	404	211	169	303	500
<b>Total Operating Expenses</b>	<b>\$ 7,961</b>	<b>\$7,132</b>	<b>\$5,824</b>	<b>\$7,804</b>	<b>\$8,124</b>
<b>Operating Income (Loss) <sup>(1)</sup></b>	<b>\$(2,482)</b>	<b>\$ 264</b>	<b>\$ 910</b>	<b>\$ 542</b>	<b>\$ (424)</b>
<b>Add Back: Depreciation</b>	<b>2,118</b>	<b>769</b>	<b>767</b>	<b>950</b>	<b>906</b>
<b>Cash Flow From Operations</b>	<b>\$ (364)</b>	<b>\$1,033</b>	<b>\$1,677</b>	<b>\$1,492</b>	<b>\$ 482</b>

<sup>(1)</sup> A portion of the Contracted Services is paid for by Grants.

Source: 2001/02 – 2003/04 Audited Financials, as expanded by the County of San Diego.  
2004/05 and 2005/06, County of San Diego.

**TABLE 7**  
**SAN DIEGO COUNTY AIRPORT ENTERPRISE FUND**  
**Statement of Non-Operating Revenues and Expenses**  
**For the Fiscal Years 2001/02 through 2005/06**  
**(\$000's)**

	(Audited)			(Unaudited)	(Budgeted)
	2001/02	2002/03	2003/04	2004/05	2005/06
<b>Non-Operating Revenues (Expenses):</b>					
Interest on Deposits & Investments	\$ 173	\$ 108	\$ 48	\$ 162	\$ 100
Federal Aid Airports (funding for CIP)	5,763	3,461	4,153	3,575	5,818
State Aid for Aviation	0	308	0	72	126
Loss on Sale	(241)	33			
Other Non-Operating Revenues (Expenses)			(1,714)	66	
Interest Expense			(177)		
Fund Balance					1,569
<b>Non-Operating Income (Loss)</b>	<b>\$ 5,695</b>	<b>\$ 3,910</b>	<b>\$ 2,310</b>	<b>\$ 3,875</b>	<b>\$ 7,613</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>\$ 3,213</b>	<b>\$ 4,174</b>	<b>\$ 3,220</b>	<b>\$ 4,417</b>	<b>\$ 7,189</b>
<b>Operating Transfers In (Out)</b>	<b>(402)</b>	<b>300</b>	<b>(528)</b>	<b>(839)</b>	<b>(673)</b>
<b>Change in Net Assets</b>	<b>\$ 2,811</b>	<b>\$ 4,474</b>	<b>\$ 2,692</b>	<b>\$ 3,578</b>	<b>\$ 6,516</b>
<b>Total Net Assets – Beginning</b>	<b>\$35,913</b>	<b>\$38,724</b>	<b>\$43,198</b>	<b>\$45,890</b>	<b>\$48,947</b>
<b>Total Net Assets - Ending</b>	<b>\$38,724</b>	<b>\$43,198</b>	<b>\$45,890</b>	<b>\$49,568</b>	<b>\$55,463</b>

Source: 2001/02 – 2003/04 Audited Financials, as expanded by the County of San Diego.  
Unaudited Results and Budget for 2004/05 and 2005/06, respectively, County of San Diego.

## Balance Sheet

Table 8 shows the Balance Sheet for the Airport Enterprise Fund for the Fiscal Years ended June 30, 2002 and through June 30, 2004.

**TABLE 8**  
**FINANCIAL REPORT OF SAN DIEGO COUNTY**  
**Airport Enterprise Fund**  
**Statement of Net Assets (\$000's)**

<b>ASSETS</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Current Assets</b>				
Equity in Pooled Cash & Investments	\$ 462	\$ 4,717	\$ 3,919	\$ 6,436
Collections in Transit	5	3	656	4
Imprest Cash	1	1	1	1
Accounts and Notes Receivable	5,906	1,177	1,096	251
Due From Other Funds	622	820	149	51
Advances to Other Funds	9,637	9,637	9,412	9,312
Inventory of Materials & Supplies	69	0	0	0
<b>Total Current Assets</b>	<b>\$ 16,702</b>	<b>\$ 16,355</b>	<b>\$ 15,233</b>	<b>\$ 16,055</b>
<b>Capital Assets</b>				
Land	\$ 6,401	\$ 6,401	\$ 9,588	\$ 9,588
Construction in Progress	6,734	11,895	10,453	8,053
Building & Equipment	28,715	28,715	35,408	40,841
Infrastructure	0	0	0	139
Less Accumulated Depreciation	(17,425)	(18,194)	(18,961)	(19,864)
<b>Total Noncurrent Assets</b>	<b>\$ 24,425</b>	<b>\$ 28,817</b>	<b>\$ 36,488</b>	<b>\$ 38,757</b>
<b>Total Assets</b>	<b>\$ 41,127</b>	<b>\$ 45,172</b>	<b>\$ 51,721</b>	<b>\$ 54,812</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ 1,866	\$ 1,453	\$ 327	\$ 801
Accrued Payroll	72	71	116	118
Due to Other Funds	351	318	1,111	192
Compensated Absences	10	12	14	14
Deferred Revenue	12	12	280	264
Bonds, Notes and Loans Payable			167	180
<b>Total Current Liabilities</b>	<b>\$ 2,311</b>	<b>\$ 1,866</b>	<b>\$ 2,015</b>	<b>\$ 1,569</b>
<b>Noncurrent Liabilities</b>				
Compensated Absences	\$ 92	\$ 108	\$ 129	\$ 126
Bonds, Notes and Loans Payable			2,831	2,652
<b>Total Noncurrent Liabilities</b>	<b>\$ 92</b>	<b>\$ 108</b>	<b>\$ 2,960</b>	<b>\$ 2,778</b>
<b>Total Liabilities</b>	<b>\$ 2,403</b>	<b>\$ 1,974</b>	<b>\$ 4,975</b>	<b>\$ 4,347</b>
<b>NET ASSETS</b>				
Invested in Capital (Net of Related Debt)	\$ 24,425	\$ 28,817	\$ 33,489	\$ 36,607
Unrestricted (Deficit)	14,299	14,381	13,257	13,858
<b>Total Net Assets</b>	<b>\$ 38,724</b>	<b>\$ 43,198</b>	<b>\$ 46,746</b>	<b>\$ 50,465</b>

Source: 2002 – 2004 Audited Financials.  
2005 Unaudited Results - County of San Diego.

## **Debt Service and Estimated Coverage**

Table 5 sets forth the debt service and estimated coverage on the Series 2005A Bonds. The following assumptions were made in creating the table:

1. The Fiscal Consultant's projections of net Tax Revenues as summarized in Table 4 and as set forth in Appendix A hereto are realized through Fiscal Year 2031-32.
2. Debt service is based on an assumed maturity schedule and interest rates for the Series 2005A Bonds as set forth on the inside cover page hereof.
3. The Agency will not incur any additional debt for the Project Area during the years shown.

**TABLE 9**  
**Estimated Tax Increment, Debt Service and Coverage**  
**(Bond Year Ending December 1)**

<b>Year<sup>(1)</sup></b>	<b>Tax Revenues</b>	<b>Airport Fund Revenues<sup>(2)</sup></b>	<b>Total Tax Revenues Plus Airport Fund Revenues</b>	<b>Series 2005A Bond Debt Service</b>	<b>Debt Service Coverage from Combined Revenues</b>	<b>Estimated Debt Service After Turbo Redemption<sup>(3)</sup></b>	<b>Debt Service Coverage</b>
2006	\$ 1,214,638	\$244,014	\$1,458,652	\$ 1,154,738	1.26	N/A	1.26
2007	1,126,410	310,185	1,436,595	1,150,830	1.25	N/A	1.25
2008	1,147,490	294,375	1,441,865	1,153,830	1.25	N/A	1.25
2009	1,169,004	278,240	1,447,244	1,150,598	1.26	N/A	1.26
2010	1,190,924	261,800	1,452,724	1,151,280	1.26	N/A	1.26
2011	1,213,315	245,006	1,458,321	1,150,620	1.27	N/A	1.27
2012	1,236,121	227,902	1,464,023	1,153,558	1.27	N/A	1.27
2013	1,478,821	45,877	1,524,698	1,154,993	1.32	N/A	1.32
2014	1,517,314	16,977	1,534,291	1,149,865	1.33	N/A	1.33
2015	1,540,879	0	1,540,879	1,153,903	1.34	N/A	1.34
2016	1,564,916	0	1,564,916	1,151,153	1.36	N/A	1.36
2017	1,589,433	0	1,589,433	1,152,403	1.38	\$1,148,953	1.38
2018	1,614,441	0	1,614,441	1,151,778	1.40	1,144,590	1.41
2019	1,639,949	0	1,639,949	1,154,740	1.42	1,143,528	1.43
2020	1,665,967	0	1,665,967	1,150,603	1.45	1,134,790	1.47
2021	1,692,505	0	1,692,505	1,150,153	1.47	1,129,165	1.50
2022	1,719,574	0	1,719,574	1,152,823	1.49	1,126,373	1.53
2023	1,747,185	0	1,747,185	1,152,993	1.52	1,120,505	1.56
2024	1,775,347	0	1,775,347	1,151,273	1.54	1,112,460	1.60
2025	1,804,073	0	1,804,073	1,152,663	1.57	1,106,950	1.63
2026	1,833,374	0	1,833,374	1,149,775	1.59	1,096,300	1.67
2027	1,863,260	0	1,863,260	1,154,063	1.61	1,092,538	1.71
2028	1,893,745	0	1,893,745	1,150,475	1.65	1,080,325	1.75
2029	1,924,839	0	1,924,839	1,154,300	1.67	1,074,950	1.79
2030	1,591,948	0	1,591,948	1,154,963	1.38	1,065,838	1.49
2031	936,696	219,941	936,696	922,463	1.25	79,313	14.58
2032	955,434	203,449	955,434	920,025	1.26	0	--
<b>Total:</b>	<b>\$40,647,602</b>			<b>\$30,650,854</b>			

- (1) Tax Revenues are for the Tax Year ending June 30 and debt services is for the Bond Year ending December 1.
- (2) The amount of Airport Fund Revenues pledged to the payment of debt service on the Series 2005A Bonds equals Maximum Annual Debt Service on the Series 2005A Bonds reduced by an amount equal to .75 times Tax Revenues received or to be received by the Agency from the most recent assessed valuation of taxable property in the Project Area, as determined by the County Assessor based upon the most recently established tax rates.
- (3) After paying debt service and annual administrative expense of \$175,000 in Fiscal Year 2006 with a 2% annual escalator, 30% of the annual remaining increment is to be utilized to call Bonds as summarized herein and further described in the Indenture. This is only an estimate to show the possible effect of turbo redemption and is based on a variety of conservative assumptions.

Source: Rosenow Spevacek Group Inc. and Stone & Youngberg LLC.

## **CERTAIN INFORMATION CONCERNING THE COUNTY**

Certain general information concerning the County is included herein as Appendix E hereto. Such information is provided for informational purposes only. The General Fund of the County is not liable for the payment of the Series 2005A Bonds or the interest thereon, nor is the taxing power of the County pledged for the payment of the Series 2005A Bonds or the interest thereon

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the delivery of the Series 2005A Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix B. As Bond Counsel, Orrick, Herrington & Sutcliffe LLP undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick, Herrington & Sutcliffe LLP will provide other legal services for the County as Disclosure Counsel.

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based on an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2005A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”), except that no opinion is expressed as to the status of interest on any Series 2005AMT Bond for any period such Series 2005AMT Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2005AMT Bonds or by a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel is of the further opinion that interest on the Series 2005A Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel observes, however, that interest on the Series 2005AMT Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that interest on the Series 2005A Bonds is exempt from State of California personal income taxes. Bond Counsel expects to deliver an opinion at the time of issuance of the Series 2005A Bonds substantially in the form set forth in APPENDIX B — “FORM OF OPINION OF BOND COUNSEL,” subject to the matters discussed below.

To the extent the issue price of any maturity of the Series 2005A Bonds is less than the amount to be paid at maturity of such Series 2005A Bonds (“Discount Bonds”) (excluding amounts stated to be interest and payable at least annually over the term of such Discount Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Discount Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Discount Bonds is the first price at which a substantial amount of such maturity of the Discount Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Discount Bonds accrues daily over the term to maturity of such Discount Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Discount Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Discount Bonds. Beneficial Owners of Discount Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Discount Bonds, including the treatment of

Beneficial Owners who do not purchase such Discount Bonds in the original offering to the public at the first price at which a substantial amount of such Discount Bonds is sold to the public.

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

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

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

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

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series 2005A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series 2005A Bonds. Prospective purchasers of the Series 2005A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Series 2005A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service



("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Agency, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Agency has covenanted, however, to comply with the requirements of the Code.

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

### **LITIGATION**

At the time of delivery of and payment for the Series 2005A Bonds, the Agency will certify that, except as disclosed herein, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory Agency, public board or body, pending or, to the knowledge of the Agency, threatened against the Agency in any way affecting the existence of the Agency or the titles of its officers to their respective offices or seeking to restrain or to enjoin the issuance, sale or delivery of the Series 2005A Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of Tax Revenues pledged or to be pledged to pay the principal of and interest on the Series 2005A Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Series 2005A Bonds, the Resolution, the Indenture or any action of the Agency contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or the powers of the Agency or its authority, or which would adversely affect the exclusion of interest paid on the Series 2005A Bonds from gross income for Federal income tax purposes or the exemption of interest paid on the Series 2005A Bonds from California personal income taxation, nor, to the knowledge of the Agency, is there any basis therefor.

### **NO RATINGS**

The Agency has not made, and does not contemplate making, application to any rating agency for the assignment of a rating to the Series 2005A Bonds.

### **UNDERWRITING**

The Series 2005A Bonds are to be purchased by Stone & Youngberg LLC, as Underwriter, pursuant to a Purchase Contract between the Underwriter and the Agency. The Underwriter will purchase the Series 2005A Bonds for the aggregate price of \$15,718,050.30, which reflects the par amount of the Series 2005A-1 Bonds of \$9,225,000, less original issue discount of \$45,949.70 and an underwriter's discount of \$136,068.75 and the part amount of the Series 2005AMT Bonds of \$6,775,000, less an underwriter's discount of \$99,931.25. The Underwriter is committed to purchase all the Series 2005A Bonds if any are purchased. The Underwriter may offer and sell the Series 2005A Bonds to certain dealers (including depositing the Series 2005A Bonds into investment trusts) and others at prices lower than the offering prices stated on the inside cover of this Official Statement. After the initial public offering, the public offering prices of the Series 2005A Bonds may be changed from time to time by the Underwriter.

## **VERIFICATION**

Grant Thornton LLP, certified public accountants, will verify as to the Escrow Agreement, the mathematical accuracy as of the date of the closing on the Series 2005A Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the investment of cash and direct obligations of the United States will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Series 1995 Bonds on February 1, 2006.

The report of Grant Thornton LLP will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

## **EXPERTS**

The Report of Rosenow Spevacek Group Inc., included in Appendix A to this Official Statement has been presented in reliance upon the knowledge, experience and authority of that firm as experts in redevelopment consulting.

## **MISCELLANEOUS**

All of the preceding summaries of the Series 2005A Bonds, other applicable legislation, agreements and other documents are made subject to the provisions of the Series 2005A Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Agency for further information in connection therewith.

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



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**APPENDIX A**

**FISCAL CONSULTANT'S REPORT**

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Gillespie Field Redevelopment Project Area

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# Fiscal Consultant Report

November 30, 2005

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County of San Diego Redevelopment Agency  
1600 Pacific Highway  
San Diego, California 92101



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# **Fiscal Consultant’s Report**

County of San Diego Redevelopment Agency Gillespie Field Project Area

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## Introduction

This Fiscal Consultant Report (“Report”) has been prepared at the request of the County of San Diego Redevelopment Agency (“Agency”). It is our understanding that the Agency will employ this Report to substantiate available tax increment revenue generated within the Gillespie Field Project Area (“Project Area”). Said revenue is to fund debt service for the Agency’s proposed 2005 Tax Allocation Bonds (“Bonds”).

The following tables have been incorporated into this Report:

Table 1:	Redevelopment Plan Limits
Table 2:	Base Year Valuation
Table 3:	Assessed Valuation by Land Use Category
Tables 4:	Historic Assessed Valuation and Tax Increment Receipts
Table 5:	New Development
Table 6:	Assessment Appeal Summary
Table 7:	2005-06 Tax Rates
Table 8:	Top Ten Taxpayers
Table 9:	Tax Increment Revenue Projections
Table 10:	Pass Through Payment Summary

Projected assessed values and tax increment revenues presented in this Report are based upon the following assumptions:

1. Historical growth trends;
2. Trended growth in valuation as permitted by Article XIII A of the California Constitution (“Proposition 13”), and;
3. Assessment and apportionment procedures of the County of San Diego (“County”).

All tax increment revenue projections have been conservatively estimated to reduce the possibility of overstating future tax increment revenue.

## Background

On July 7, 1987, the Board of Supervisors of the County of San Diego (“Board”) adopted Ordinance No. 7399 adopting the Redevelopment Plan

for the Gillespie Field Project Area (“Redevelopment Plan”). The Plan was amended on November 8, 1994 by Ordinance No. 8471, to state that the Plan is effective for 40 years. The Project Area encompasses approximately 746 acres including and adjacent to Gillespie Field.

**Redevelopment Plan Limitations**

The time limitations presented by Table 1 involve the Agency’s ability to incur debt, undertake Plan activities, and collect tax increment revenues. The financial limitations pertain to the amount of tax increment revenue that the Agency may receive, and the amount of bonded indebtedness that may be outstanding at any one time.

<b>TABLE 1</b>	
<b>REDEVELOPMENT PLAN LIMITS</b>	
<b><i>TIME LIMITS</i></b>	
<i>Incur Debt</i>	7/7/2007
<i>Plan Effectiveness</i>	7/7/2027
<i>Increment Collection</i>	7/7/2032
<b><i>FINANCIAL LIMITS</i></b>	
<i>Tax Increment*</i>	\$80,000,000
<i>Bond Indebtedness</i>	\$40,000,000
* The tax increment limit is net of any tax increment which is paid to an affected taxing agency pursuant to the Law.	

Source: Redevelopment Plan

Section 610.4 of the Plan establishes an \$80 million limit on the amount of tax increment revenue that may be collected by the Agency. Section 610.5 of the Plan indicates that the calculation of this limit shall be net of any tax increment which is paid directly or indirectly to an affected taxing agency. The projections presented on Table 9 indicate that this limit will not be reached during the remaining time for the Project Area to collect tax increment, but should growth in assessed value occur faster than anticipated, it is not unlikely that this limit could be reached, therefore the tax increment limit could affect the Agency’s ability to meet debt service or coverage requirements on the Bonds. Section 620.6 establishes a \$40 million limit on the amount of bonded indebtedness that may be outstanding at any one time. The Agency currently has \$4,260,000 of outstanding bonded indebtedness.

## General Assumptions in the Revenue Projections

### Assessed Valuation

The Redevelopment Plan for the Project Area provides that the Agency may collect tax increment to finance project implementation. Tax increment revenue is generated from increases in the current year total assessed value above the base year value. In August of each year, the County Auditor-Controller provides a report for the Project Area that delineates the current year and base year values. The current year (fiscal year 2005-06) total assessed value for the Project Area is \$266,156,900, of which tax increment revenue is generated from the incremental assessed value in excess of the Project Area's 1987-88 base year value of \$56,405,596. The components of the base year valuation for the Project Area, as reported in 2005-06 by the County Auditor Controller is listed in Table 2.

<b>TABLE 2</b>	
<b>BASE YEAR VALUATION</b>	
Land & Improvements	\$38,949,956
Personal Property	\$4,861,090
Aircraft	\$12,594,550
<b>TOTALS</b>	<b>\$56,405,596</b>

Source: San Diego County Auditor-Controller

The majority of the secured assessed value in the Project Area is generated by industrial use. It is estimated that approximately 94% of the secured assessed value in the Project Area is designated for industrial use. Table 3 summarizes the secured land & improvements assessed value for the Project Area by land use category.

TABLE 3		
GILLESPIE FIELD PROJECT AREA		
2005-06 Secured Land & Improvements Value by Land Use Category		
Land Use Category	Assessed Value	% of Total
Industrial	\$131,185,728	93.73%
Commercial	4,813,629	3.44%
Vacant	2,931,872	2.09%
Recreational	1,035,613	0.74%
<b>Total</b>	<b>\$139,966,842</b>	<b>100.00%</b>

Note: This table does not include Unsecured Land & Improvements Value

Source: San Diego County Assesor through the First American Real Estate Solutions Database

RSG has summarized year-to-year changes in the Project Area assessed values and revenue paid to the Agency in Table 4, based upon the County Auditor-Controller's annual assessed value reports.

TABLE 4									
GILLESPIE FIELD PROJECT AREA									
HISTORICAL ASSESSED VALUATIONS AND TAX INCREMENT RECEIPTS									
	2001-02	%	2002-03	%	2003-04	%	2004-05	%	2005-06
		CHANGE		CHANGE		CHANGE		CHANGE	
<b>Assessed Values:</b>									
LAND AND IMPROVEMENTS:	\$113,361,419		\$124,886,292		\$136,536,427		\$141,915,169		\$147,369,119
PERSONAL PROPERTY:	16,084,719		20,577,236		22,864,243		19,335,166		18,300,681
AIRCRAFT:	37,833,950		29,114,600		125,615,600		100,553,600		100,487,100
<b>TOTAL AV:</b>	<b>\$167,280,088</b>	<b>4.4%</b>	<b>\$174,578,128</b>	<b>63.3%</b>	<b>\$285,016,270</b>	<b>-8.1%</b>	<b>\$261,803,935</b>	<b>1.7%</b>	<b>\$266,156,900</b>
LESS: BASE YEAR:	(56,405,596)		(56,405,596)		(56,405,596)		(56,405,596)		(56,405,596)
<b>INCREMENTAL AV:</b>	<b>\$110,874,492</b>	<b>6.6%</b>	<b>\$118,172,532</b>	<b>93.5%</b>	<b>\$228,610,674</b>	<b>-10.2%</b>	<b>\$205,398,339</b>	<b>2.1%</b>	<b>\$209,751,304</b>
Est. Incremental Revenue:	1,108,745		1,181,725		2,286,107		2,053,983		2,097,513
Est. Utility Revenue:	1,752		1,668		2,195		2,222		2,222
<b>Total Est. Revenue:</b>	<b>1,110,497</b>		<b>1,183,393</b>		<b>2,288,302</b>		<b>2,056,205</b>		<b>2,099,735</b>
<b>Actual Revenues Paid by County:</b>									
Secured & Unsecured:	1,139,138		1,186,307		2,296,656		1,912,814		Not Available
Supplemental:	74,263		52,124		59,317		24,155		
Unitary Utility:	1,732		1,640		2,169		2,220		
Health & Safety Code Pass Through:	(11,571)		(12,389)		(13,263)		(14,127)		
Corrections & Refunds/Adjustments:	(8,986)		(6,055)		(352,980)		(9,110)		
Delinquencies, Penalties and Interest:	16,634		16,913		18,379		18,641		
Property Tax Administration Costs:	(8,292)		(10,380)		(11,228)		(12,055)		
<b>Net Revenue Paid:</b>	<b>1,202,918</b>	<b>2.10%</b>	<b>1,228,158</b>	<b>62.77%</b>	<b>1,999,049</b>	<b>-3.83%</b>	<b>1,922,538</b>		
Low/Mod Housing Set-Aside:	(240,584)		(245,632)		(399,810)		(384,508)		
<b>Net Revenue Received By Agency:</b>	<b>962,335</b>	<b>2.10%</b>	<b>982,527</b>	<b>62.77%</b>	<b>1,599,239</b>	<b>-3.83%</b>	<b>1,538,030</b>		

Source: San Diego County Auditor-Controller

Over the past five years, the Project Area assessed values have increased by approximately 39.8%, due to new construction and appreciation in the local real estate economy, as discussed later in this Report.

### **Growth Assumptions in the Revenue Projections**

The tax increment revenue projections contained on Table 9 assume a 2% inflationary adjustment permitted under Proposition 13, in the Project Area's secured assessed value. Because personal property values and unsecured aircraft values are not subject to annual inflationary increases, and are subject to unpredictable increases and decreases, personal property values are held constant at the 2005-06 value in the tax increment revenue projections, while the aircraft unsecured values were held constant at \$65 million to account for the loss of approximately \$35 million in aircraft unsecured value (see the Top Ten Taxpayers section later in this report).

The growth assumptions were established by RSG to account for the following factors that affect future tax increment collections in the Project Area.

### **Changes in Value Caused by Ownership Changes**

Under Section 110.1 of the Revenue and Taxation Code, a change of ownership establishes a reassessment of taxable property based on the property's purchase price and fair market value. Sales that occur prior to the lien date (January 1) are reflected on the next equalized assessment roll. Sales occurring after the January 1 lien date are subject to a supplemental tax bill for the prorated amount of increase in taxes during the fiscal year.

RSG analyzed full and verified sales transactions between January 1, 2005 and October 18, 2005 based on data from the County Recorder. The few sales that occurred during this time period will not have a significant impact on Project Area assessed value.

Although changes in ownership will continue to occur and will typically cause increases in assessed valuation, the actual rate of future sales is unpredictable; therefore, the tax increment revenue projections do not reflect any assessed value growth pertaining to property sales.

### **New Construction**

The Revenue and Taxation Code provides for reassessment of properties upon the completion of new construction. The County Assessor determines the construction value in place as of January 1 each year, and that amount is reflected on the next equalized assessment roll.

Table 5 shows the anticipated new development over the next six years in the Project Area.

<b>TABLE 5</b>		
<b>GILLESPIE FIELD PROJECT AREA</b>		
<b>NEW DEVELOPMENT</b>		
<b>Project</b>	<b>Value</b>	<b>Timeframe</b>
Weld & Cuyamaca Development (under negotiation)		
Phase I - 145,000sf Light Industrial	\$12,106,125	2007-08
Phase II - 150,000sf Light Industrial	12,331,125	2008-09
Phase III - 165,000sf Light Industrial	13,006,125	2009-10
La Jolla Investments	1,294,125	Oct. 2008
6 hangers and 2 office buildings		
Gillespie Way - Building # 1965	10,189	2004-05
Tenant Improvement		
Southern California Aircraft Repair		
13 hangers totaling 35,000sf and 2,500sf of Commercial/Office space.	797,000	2005-06
CW2, Lot 12, Gillespie Way		
17,104sf Industrial building	770,000	2004-05
Cuyamaca West Unit II - Lot 15-3		
2 buildings totaling 21,051sf for commercial/Industrial	947,300	2006-007
<b>Total value of proposed projects</b>	<b>\$41,261,989</b>	

Once this development is complete, it will result in an increase of approximately \$412,620 in annual gross tax increment revenue for the Project Area, subject to annual inflationary increases. Because the majority of this development is not expected to occur prior to the January 1, 2006 lien date, the tax increment revenue projections included in this report do not incorporate any increases in assessed value from new development projects.

### **Assessment Appeals**

Property owners that wish to dispute the value of their property may file an assessment appeal with the County Assessor. In most cases, an assessment appeal is filed because the applicant (property owner) believes that present market conditions cause the property to be worth less than its assessed value. RSG analyzed the assessment appeals filed in the Project Area over the past five years. Table 6 presents a summary of the appeals activity.

**TABLE 6**

**GILLESPIE FIELD PROJECT AREA ASSESSMENT APPEAL SUMMARY  
 2000 TO 2004**

	2000	2001	2002	2003	2004
<b>Total Appeals on File</b>	11	7	14	13	6
<b>Withdrawn/Late/Denied</b>	10	4	7	11	0
<b>Appeals Stipulated/Reduced</b>	1	3	7	2	0
<b>Appeals Pending</b>	0	0	0	0	6
<b>Resolved Appeals Summary</b>					
<b>Assessor's Original Value</b>	\$2,563,640	\$14,842,220	\$15,288,774	\$50,838,483	\$15,998,585
<b>Applicant Opinion of Value</b>	\$1,755,920	\$11,408,771	\$10,927,131	\$9,133,196	\$10,929,700
<b>Requested Reduction of Value</b>	\$807,720	\$3,433,449	\$4,361,643	\$41,705,287	\$5,068,885
<b>% Reduction Requested</b>	31.5%	23.1%	28.5%	82.0%	31.7%
<b>Assessor Reduced Value</b>	\$12,000	\$3,661,500	\$2,386,900	\$73,808	\$0
<b>% Reduction Granted</b>	0.5%	24.7%	15.6%	0.1%	0.0%
<b>Pending Appeals Summary</b>					
<b>Assessor's Original Value</b>	\$0	\$0	\$0	\$0	\$15,998,585
<b>Applicant Opinion of Value</b>	\$0	\$0	\$0	\$0	\$10,929,700
<b>Requested Reduction of Value</b>	\$0	\$0	\$0	\$0	\$5,068,885
<b>% Reduction Requested</b>	0%	0%	0%	0%	32%
<b>Potential Reductions Summary</b>					
<b>Total Pending Appeals (2004)</b>	6				
<b>Pending Appeals Roll Value (2004)</b>	\$15,998,585				
<b>Applicant Opinion of Value (2004)</b>	\$10,929,700				
<b>Total Requested Reduction of Value</b>	\$5,068,885				
<b>Total Potential Value Loss</b>	\$5,068,885				
<b>Project Area 2004-05 Assessed Value</b>	\$161,250,335				
<b>Loss as a % of 2004-05 Assessed Value</b>	3.143%				

Source: San Diego County, Office of the Assessor

As shown in the table, a total of 51 appeals have been filed within the Project Area. All but 6 of those appeals have been resolved, resulting in a total reduction of \$6,134,208 due to 13 granted appeals during the past 5 years. The six pending appeals represent a potential reduction of \$5,068,885 (3.1% of the total Project Area assessed value).

**Tax Increment Collection Fee/Delinquencies/Supplemental Roll**

Actual tax increment disbursements are reduced to reflect the tax collection fee charged by the County Auditor-Controller pursuant to Senate Bill 2577. The tax collection fee varies slightly from year-to-year; during 2004-05, the County Auditor-Controller reported that the tax collection fee is \$12,055, or approximately 0.63% of the total tax increment revenue paid to the Agency.

The Agency has not been placed on the County's "Teeter Plan", which stabilizes property tax payments at 100% of anticipated receipts. Consequently, delinquent property taxes do impact the Agency's tax increment revenues. Since fiscal year 2000-01, the delinquency rate in

San Diego County has been not been higher than 1.5%. The Auditor-Controller remits tax increment revenues to the Agency in three payments each fiscal year, in December, April, and June, based on collections.

Actual tax increment receipts will be reduced to reflect tax collection fees charged by the County of San Diego. Receipts may increase or decrease by the amount of supplemental roll revenue and prior supplemental roll refunds. Because these costs/revenues/refunds cannot be accurately projected, and historically the revenues have exceeded the costs resulting in slightly higher revenues than anticipated, no provision is made to reflect their impact on future revenues.

Based on these historical trends and expectations, it is assumed that assessed values will continue to rise for the foreseeable future.

### **Tax Rates**

The Project Area has a total of ten tax rate areas. The 2005-06 tax rates for these tax rate areas are as follows:

<b>TABLE 7</b>	
<b>2005-06 Tax Rates</b>	
<b>GILLESPIE FIELD PROJECT AREA</b>	
<b>TRA No.</b>	<b>Tax Rate</b>
03069	1.08032
03140	1.05251
03143	1.08032
03144	1.08032
03182	1.07901
03183	1.05251
03184	1.07883
03185	1.05400
03186	1.05400
03187	1.05400

Because override rates tend to decline as debt service is paid, a tax rate of 1% has been assumed in the tax increment revenue projections.

### **Unitary Utility Revenue**

As provided by Assembly Bill 454, property tax revenue from unitary utility property is disbursed in a different manner than revenue from nonunitary property. The County Auditor-Controller has provided figures of unitary utility revenues for the Project Area; these amounts are enumerated in



Table 4. No increase in the unitary utility revenue has been included in the tax increment revenue projections

## **Tax Increment Revenue Sharing and Agreements**

### **Taxing Entity Payments**

#### **Settlement Agreement**

In June of 1989, the County of San Diego (“County”), the Agency, Cajon Valley Union School District, Santee School District, Grossmont Union High School District and the County Superintendent of Schools (“School Districts”) entered into a Settlement Agreement regarding the Project Area. The Settlement Agreement details the method by which the tax increment collected from the Project Area shall be distributed by the Agency to the School Districts.

Under the Agreement the School Districts are entitled to receive the following four types of payments:

1. *Inflationary Factor Revenue*: As allowed by the Agreement, the Santee School District and Cajon Valley Union School District were paid their share of the inflation factor revenue in a lump sum payment upon the issuance of the Agency’s first bond. Therefore, the projections show pass through of the inflation factor revenue for only the Grossmont Union High School District and the County Superintendent of Schools.
2. *Excess Tax Increment Revenue for Capital Facilities*: The Agency shall pay the School Districts, based on their relative shares, 49.31% of excess tax increment revenues for capital facilities beginning in the fifth (5) year after the sale of bonds. Excess tax increment revenues are based on actual annual debt service until all planned improvements for the Project Area are complete. After all planned improvements for the Project Area are complete, excess tax increment revenues will be based on adjusted annual debt service. All planned improvements are not yet complete and are not envisioned to be complete within the foreseeable future. As defined by the Agreement, “Actual Annual Debt Service Cost is determined by using 8 percent as the applicable interest rate, 25 years as the term of bond issuance, and using the actual bond amount which incorporates the most recent engineering estimate of improvement costs for the Redevelopment Project.”

3. *\$80,000,000 Tax Increment Limit:* There are special conditions that are triggered if the Agency reaches its \$80 million tax increment limit. Based on current estimates, it is likely that the \$80 million tax increment limit will be attained during the 45-year life of the Redevelopment Plan.
4. *Guaranteed \$2,000,000 Payment:* The Settlement Agreement provides that the Agency will pay the School Districts \$2 million based on their relative shares during the guarantee period according to the schedule set in Exhibit 4 of the Settlement Agreement. The Guaranteed payment to be reduced if the following occurs:
  - Excess Tax Increment Revenue is received.
  - The cumulative actual revenue received is less than the cumulative projected revenue.
  - The shortfall between tax increment and debt service on the bond is greater than the Agency projected; the shortfall is higher due to higher project improvement costs.

Because the cumulative projected revenue exceeds cumulative actual revenue for the period from the year the bonds were issued to the year prior to the start of the guaranteed period by more than 2 million dollars, no guaranteed payment is required.

### **Election to Receive Inflationary Tax Increment Revenue**

The Metropolitan Water District adopted Resolution No. 8128 pursuant to Health and Safety Code Section 33676(a)(1) and (2) on November 18, 1986 which allows the district to receive its share of revenues attributable to annual increases of not to exceed two percent (2%) in the valuation of real property pursuant to Revenue and Taxation Code Section 110.1(f). Although the Grossmont Community College District did not file a similar resolution, the San Diego County Auditor-Controller is passing through the inflationary revenue to the College District. (Note that Section 33676(a) has subsequently been modified, however, this change does not modify the requirement to pay these districts according to the previous version of the law.) The County Auditor-Controller administers these agreements and these amounts are subtracted from the tax increment remitted to the Agency. For this reason, this revenue is not subject to deduction of the 20% low and moderate income housing set-aside.

### **Developer Agreement Payments**

Agency staff indicates that there are no property owner or developer agreements that require payment of any portion of tax increment.

## Low and Moderate Income Housing Fund Deposits

The Redevelopment Law requires the Agency to deposit 20% of the tax increment received by the Agency into a Low and Moderate Income Housing Fund for the purposes of maintaining and expanding the supply of housing affordable to very low, low, and moderate income households. This amount is calculated net of payments made by the Auditor Controller pursuant to Health and Safety Code Section 33676(a). The proposed bonds are intended to fund nonhousing projects, and therefore, the tax increment revenue projections exclude the 20% low and moderate income housing set-aside deposits from amounts available to fund debt service and coverage requirements on the proposed Bonds.

## Top Ten Secured Taxpayers

Utilizing the County's 2005-06 Secured and Unsecured Assessment Rolls, the top ten largest taxpayers within the Project Area have been identified and are listed on Table 8 below.

TABLE 8				
Redevelopment Agency of the County of San Diego				
2005-06 Top Ten Taxpayers				
GILLESPIE FIELD PROJECT AREA				
Owner Name	Parcel Count	Land Use/ Assessment Type	Net Assessed Value	% of Net Assessed Value
1. Irwin Mark Jacobs Trustee <sup>1</sup>	n/a	Aircraft Unsecured	\$34,510,000	13.0%
2. Pacific Gillespie Partners	11	Industrial, Commercial	31,919,870	12.0%
3. Cuyamaca West Partners	11	Industrial	13,701,168	5.1%
4. GC Air LLC	n/a	Aircraft Unsecured	13,196,200	5.0%
5. GKN Aerospace Chem-tronics Inc.	4	Industrial	11,913,555	4.5%
6. Carpenter Special Products	1	Industrial, Unsecured	7,550,060	2.8%
7. Frank Goldberg	3	Industrial	7,293,526	2.7%
8. Helf Properties	7	Industrial	6,384,054	2.4%
9. Skyfarm LLC	n/a	Aircraft Unsecured	6,241,600	2.3%
10. Taylor-Listug Inc.	n/a	Unsecured	5,483,614	2.1%
<b>TOP TEN TOTALS</b>	<b>37</b>		<b>\$138,193,647</b>	<b>51.9%</b>
<b>2005-06 PROJECT AREA NET ASSESSED VALUE</b>			<b>\$266,156,900</b>	

Source: First American Real Estate Solutions, San Diego County Assessor

<sup>1</sup> According to Agency staff, the aircraft owned by Irwin Mark Jacobs Trustee left the Project Area in June 2005. RSG has assumed a reduction of approximately \$35 million in future Aircraft Unsecured Assessed Values to account for the departure of the Irwin Mark Jacobs Trustee aircraft.

The top ten taxpayers account for approximately \$138.2 million (51.9%) of the 2005-06 assessed value.

### **Tax Increment Revenue Projections**

Tables 9 and 10 present the tax increment revenue projections for the Project Area, based upon the assumptions described in this Report

In fiscal year 2005-06, RSG projects that the Agency will have a total of \$1,214,638 of net nonhousing revenues available for debt service and coverage on the proposed bonds.

We trust that this information provides the bond financing team with an adequate basis for determining the Agency's ability to meet debt service requirements for the Bonds. While RSG has taken precautions to assure the accuracy of the data used in the formulation of these tax increment revenue projections, we cannot ensure that projected valuations will be realized. Future events and conditions that cannot be controlled or predicted with certainty may affect actual values presented in this Report.

**TABLE 9**  
**Redevelopment Agency of the County of San Diego**  
**TAX INCREMENT REVENUE PROJECTIONS**  
**GILLESPIE FIELD PROJECT AREA**

Plan Year	Fiscal Year	Land & Improv Assessed Valuation @ 2.00%	Pers Propty Assessed Valuation @ 0.00%	Aircraft Assessed Valuation @ 0.00%	Total Assessed Valuation	Annual Incremental Revenue @ 1.00%	Estimated Unitary Revenue	Gross Tax Increment Revenue	Total Pass-Thru Payment	Remaining Revenue	Cumulative Tax Incent Net of Pass Thru	Net Housing Fund Portion (1)	Net Non-Hsng Fund Portion (2)
	<b>BASE YEAR</b>	38,949,956	4,861,090	12,594,550									
19	2005-06	147,369,119	18,300,681	100,487,100	266,156,900	2,097,513	2,222	2,099,735	468,213	1,631,522	10,932,296	416,884	1,214,638
20	2006-07	150,316,501	18,300,681	65,000,000	233,617,182	1,772,116	2,222	1,774,338	296,331	1,478,007	12,410,302	351,597	1,126,410
21	2007-08	153,322,831	18,300,681	65,000,000	236,623,512	1,802,179	2,222	1,804,401	299,513	1,504,888	13,915,191	357,398	1,147,490
22	2008-09	156,389,288	18,300,681	65,000,000	239,689,969	1,832,844	2,222	1,835,066	302,747	1,532,319	15,447,510	363,316	1,169,004
23	2009-10	159,517,074	18,300,681	65,000,000	242,817,755	1,864,122	2,222	1,866,344	306,069	1,560,275	17,007,785	369,351	1,190,924
24	2010-11	162,707,415	18,300,681	65,000,000	246,008,096	1,896,025	2,222	1,898,247	309,424	1,588,823	18,596,608	375,507	1,213,315
25	2011-12	165,961,564	18,300,681	65,000,000	249,262,245	1,928,566	2,222	1,930,789	312,881	1,617,908	20,214,516	381,787	1,236,121
26	2012-13	169,280,795	18,300,681	65,000,000	252,581,476	1,961,759	2,222	1,963,981	96,969	1,867,012	22,081,528	388,192	1,478,821
27	2013-14	172,666,411	18,300,681	65,000,000	255,967,092	1,995,615	2,222	1,997,837	85,798	1,912,039	23,993,566	394,725	1,517,314
28	2014-15	176,119,739	18,300,681	65,000,000	259,420,420	2,030,148	2,222	2,032,370	90,103	1,942,268	25,935,834	401,388	1,540,879
29	2015-16	179,642,134	18,300,681	65,000,000	262,942,815	2,065,372	2,222	2,067,594	94,493	1,973,101	27,908,935	408,185	1,564,916
30	2016-17	183,234,976	18,300,681	65,000,000	266,535,657	2,101,301	2,222	2,103,523	98,971	2,004,551	29,913,486	415,118	1,589,433
31	2017-18	186,899,676	18,300,681	65,000,000	270,200,357	2,137,948	2,222	2,140,170	103,539	2,036,631	31,950,117	422,190	1,614,441
32	2018-19	190,637,669	18,300,681	65,000,000	273,938,350	2,175,328	2,222	2,177,550	108,198	2,069,352	34,019,469	429,403	1,639,949
33	2019-20	194,450,423	18,300,681	65,000,000	277,751,104	2,213,455	2,222	2,215,677	112,950	2,102,727	36,122,195	436,760	1,665,967
34	2020-21	198,339,431	18,300,681	65,000,000	281,640,112	2,252,345	2,222	2,254,567	117,798	2,136,770	38,258,965	444,265	1,692,505
35	2021-22	202,306,220	18,300,681	65,000,000	285,606,901	2,292,013	2,222	2,294,235	122,742	2,171,493	40,430,458	451,919	1,719,574
36	2022-23	206,352,344	18,300,681	65,000,000	289,653,025	2,332,474	2,222	2,334,696	127,785	2,206,911	42,637,370	459,727	1,747,185
37	2023-24	210,479,391	18,300,681	65,000,000	293,780,072	2,373,745	2,222	2,375,967	132,929	2,243,038	44,880,408	467,690	1,775,347
38	2024-25	214,688,979	18,300,681	65,000,000	297,989,660	2,415,841	2,222	2,418,063	138,176	2,279,887	47,160,294	475,813	1,804,073
39	2025-26	218,982,759	18,300,681	65,000,000	302,283,440	2,458,778	2,222	2,461,000	143,528	2,317,473	49,477,767	484,099	1,833,374
40	2026-27	223,362,414	18,300,681	65,000,000	306,663,095	2,502,575	2,222	2,504,797	148,986	2,355,811	51,833,578	492,550	1,863,260
41	2027-28	227,829,662	18,300,681	65,000,000	311,130,343	2,547,247	2,222	2,549,470	154,555	2,394,915	54,228,493	501,170	1,893,745
42	2028-29	232,386,255	18,300,681	65,000,000	315,686,936	2,592,813	2,222	2,595,035	160,234	2,434,802	56,663,294	509,963	1,924,839
43	2029-30	237,033,980	18,300,681	65,000,000	320,334,661	2,639,291	2,222	2,641,513	160,234	2,474,279	59,137,573	518,931	1,956,770
44	2030-31	241,774,660	18,300,681	65,000,000	325,075,341	2,686,697	2,222	2,688,919	1,224,145	1,464,775	60,238,949	528,079	936,696
45	2031-32	246,610,153	18,300,681	65,000,000	329,910,834	2,735,052	2,222	2,737,274	1,244,430	1,492,844	61,731,793	537,410	955,434

[1] Housing Fund Set-Aside is calculated net of Metropolitan Water District and Grossmont Community College Pass Through Payments (see Table 10).

[2] The Net Non-Housing Fund Portion is the amount of Tax Increment Revenue remaining for the Agency after all deductions for Pass Through Payments and the Housing Fund.

**TABLE 10**  
**Redevelopment Agency of the County of San Diego**  
**TAX INCREMENT REVENUE PROJECTIONS -- PASS THROUGH PAYMENT SUMMARY**  
**GILLESPIE FIELD PROJECT AREA**

Plan Year	Fiscal Year	Inflationary Revenue Pass Thru - Co Admin		Other Inflationary Pass Thru		Excess Tax Increment Revenue for Capital Facilities				[Pre Completion of Capital Improvements]			Excess Tax Increment Revenue Pass Through Payments					
		Metropolitan Water Dist.	Grossmont Comm. Coll.	Net Agency Revenue (Net of Non-Agrmnt Pass Throughs)	Grossmont Union High School Dist.	County Superint. of Schools	Tax Increment Revenue Projected (1)	Inflation Factor Revenue (2)	Baseline Tax Increment	Baseline Annual Debt Service (1)	Actual Annual Debt Service (3)	Adjusted Baseline Tax Increment	Excess Tax Increment Revenue	Cajon Valley Union School District	Santee Union School District	Grossmont Union High School Dist.	County Superint. of Schools	Total Cap. Facilities Pass-Thru
	<b>BASE YEAR</b>					<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>						
19	2005-06	1,096	14,219	2,084,420	36,576	2,377	1,868,200	160,215	2,028,415	2,411,600	1,480,125	1,244,944	839,476	92,020	119,465	189,628	12,832	413,945
20	2006-07	1,171	15,181	1,757,986	39,052	2,538	1,905,600	171,027	2,076,627	2,411,600	1,480,125	1,274,534	483,451	52,994	68,799	109,206	7,390	238,390
21	2007-08	1,246	16,163	1,786,992	41,577	2,702	1,943,700	182,056	2,125,756	2,411,600	1,480,125	1,304,687	482,305	52,868	68,636	108,947	7,373	237,824
22	2008-09	1,324	17,165	1,816,578	44,153	2,869	1,982,600	193,305	2,175,905	2,411,600	1,480,125	1,335,466	481,111	52,738	68,466	108,678	7,354	237,236
23	2009-10	1,402	18,186	1,846,755	46,781	3,040	2,022,200	204,778	2,226,978	2,411,600	1,480,125	1,366,813	479,942	52,609	68,300	108,414	7,336	236,660
24	2010-11	1,483	19,228	1,877,536	49,461	3,214	2,062,700	216,482	2,279,182	2,411,600	1,480,125	1,398,853	478,684	52,471	68,121	108,129	7,317	236,039
25	2011-12	1,565	20,291	1,908,933	52,195	3,392	2,103,900	228,419	2,332,319	2,411,600	1,480,125	1,431,466	477,467	52,338	67,948	107,855	7,299	235,439
26	2012-13	1,648	21,375	1,940,958	54,983	3,573	2,146,000	240,596	2,386,596	1,849,700	1,480,125	1,909,747	31,211	3,421	4,442	7,050	477	15,390
27	2013-14	1,734	22,480	1,973,623	57,827	3,758	2,188,900	253,015	2,441,915	1,410,800	1,480,125	2,561,908	0	0	0	0	0	0
28	2014-15	1,820	23,608	2,006,942	60,728	3,946	2,232,700	265,683	2,498,383	1,256,200	1,480,125	2,943,734	0	0	0	0	0	0
29	2015-16	1,909	24,758	2,040,927	63,687	4,138	2,277,300	278,605	2,555,905	810,600	1,480,125	4,666,985	0	0	0	0	0	0
30	2016-17	2,000	25,932	2,075,591	66,705	4,335	2,322,900	291,785	2,614,685	0	1,480,125	2,614,685	0	0	0	0	0	0
31	2017-18	2,092	27,129	2,110,949	69,784	4,535	2,369,300	305,228	2,674,528	0	1,480,125	2,674,528	0	0	0	0	0	0
32	2018-19	2,186	28,349	2,147,014	72,924	4,739	2,416,700	318,941	2,735,641	0	1,480,125	2,735,641	0	0	0	0	0	0
33	2019-20	2,282	29,594	2,183,801	76,127	4,947	2,465,100	332,927	2,798,027	0	1,480,125	2,798,027	0	0	0	0	0	0
34	2020-21	2,380	30,864	2,221,323	79,394	5,159	2,514,400	347,194	2,861,594	0	1,480,125	2,861,594	0	0	0	0	0	0
35	2021-22	2,480	32,160	2,259,595	82,726	5,376	2,564,600	361,745	2,926,345	0	1,480,125	2,926,345	0	0	0	0	0	0
36	2022-23	2,582	33,481	2,298,633	86,125	5,596	2,615,900	376,588	2,992,488	0	1,480,125	2,992,488	0	0	0	0	0	0
37	2023-24	2,686	34,829	2,338,452	89,592	5,822	2,668,300	391,728	3,060,028	0	1,480,125	3,060,028	0	0	0	0	0	0
38	2024-25	2,792	36,204	2,379,067	93,129	6,052	2,721,600	407,170	3,128,770	0	1,480,125	3,128,770	0	0	0	0	0	0
39	2025-26	2,900	37,606	2,420,494	96,736	6,286	2,776,100	422,921	3,199,021	0	1,480,125	3,199,021	0	0	0	0	0	0
40	2026-27	3,010	39,036	2,462,750	100,415	6,525	2,831,600	438,988	3,270,588	0	1,480,125	3,270,588	0	0	0	0	0	0
41	2027-28	3,123	40,495	2,505,852	104,168	6,769	2,888,200	455,375	3,343,575	0	1,480,125	3,343,575	0	0	0	0	0	0
42	2028-29	3,237	41,983	2,549,815	107,995	7,018	2,946,000	472,091	3,418,091	0	1,480,125	3,418,091	0	0	0	0	0	0
43	2029-30	3,355	43,501	2,594,657	111,900	7,271	1,366,100	489,140	1,855,240	0	1,480,125	1,855,240	739,417	81,052	105,225	167,026	11,303	364,606
44	2030-31	3,474	45,049	2,640,396	115,882	7,530	0	506,531	506,531	0	0	506,531	2,133,865	233,906	303,668	482,017	32,618	1,052,209
45	2031-32	3,596	46,629	2,687,050	119,944	7,794	0	524,269	524,269	0	0	524,269	2,162,781	237,076	307,782	488,549	33,060	1,066,467

[1] Values were taken from Settlement Agreement Exhibit 1, Table D.

[2] Values were taken from Settlement Agreement Exhibit 3.

[3] The Actual Annual Debt Service amount is calculated using an 8% interest rate, 25 year bond term and the actual bond amount. The current payments are based on an assumed par amount of \$15.8 million.

NOTE: After Baseline Annual Debt Service runs out (2016-2017) for calculation in Adjusted Baseline Tax Increment, Excess Tax Increment is calculated using Baseline Tax Increment.

## APPENDIX B

### FORM OF OPINION OF BOND COUNSEL

*Upon delivery of the Series 2005A Bonds, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, proposes to render its final approving opinion with respect to the Series 2005A Bonds in substantially the following form:*

[Closing Date]

Redevelopment Agency of the  
County of San Diego  
1600 Pacific Highway  
San Diego, California 92101

Re: Redevelopment Agency of the County of San Diego  
Gillespie Field Project  
Revenue Refunding Bonds, Series 2005A

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(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Redevelopment Agency of the County of San Diego (the “Agency”) in connection with the issuance by the Agency of \$16,000,000 aggregate principal amount of Gillespie Field Project Revenue Refunding Bonds, Series 2005A consisting of (i) \$9,225,000 aggregate principal amount of Gillespie Field Project Revenue Refunding Bonds, Series 2005A-1 (the “Series 2005A-1 Bonds”); and (ii) \$6,775,000 aggregate principal amount of Gillespie Field Project Revenue Refunding Bonds, Series 2005AMT (the “Series 2005AMT Bonds,” and together with the Series 2005A-1 Bonds, the “Series 2005A Bonds”), issued pursuant to the provisions of the Community Redevelopment Law of the State of California (being Part I of Division 24 of the Health and Safety Code of the State of California), as amended, and a certain Indenture, dated as of December 1, 2005 (the “Indenture”), between the Agency and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Series 2005A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken

to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Series 2005A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Agency. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2005A Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Series 2005A Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against redevelopment agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2005A Bonds and express no opinion with respect thereto.

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

1. The Series 2005A Bonds constitute valid and binding limited obligations of the Agency.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Agency. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2005A Bonds, of the Tax Revenues and any other amounts (including proceeds of the sale of the Series 2005A Bonds) held by the Fiscal Agent in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and upon the terms and conditions set forth in the Indenture.
3. The Series 2005A Bonds are not a lien or charge upon the funds or property of the Agency except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2005A Bonds. The Series 2005A Bonds are not a debt of the County of San Diego or the State of California and said County and said State are not liable for the payment thereof.
4. Interest on the Series 2005A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Series 2005AMT Bond for any period such Series 2005AMT Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2005AMT Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Interest on the Series 2005A-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series 2005AMT Bonds is a specific preference item for purposes of the federal individual or corporate alternative minimum taxes.



Interest on the Series 2005A Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2005A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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## APPENDIX C

### DTC AND BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Series 2005A Bonds. The Series 2005A Bonds will be delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be delivered for each maturity of the Series 2005A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 authority" 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 securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing issuers, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2005A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005A 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 but Beneficial Owners are 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 interest in the Series 2005A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2005A Bonds, except in the event that use of the book-entry system for the Series 2005A Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Prepayment notices will be sent to Cede & Co. If less than all of the Series 2005A 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.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2005A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2005A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, sinking fund and interest payments on the Series 2005A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

**The Agency and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the Series 2005A Bonds paid to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Agency and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2005A Bonds or any error or delay relating thereto.**

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 2005A Bonds, payment of principal, interest and other payments on the Series 2005A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Series 2005A 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.

## APPENDIX D

### DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following statements are summaries of the Indenture, dated as of December 1, 2005 (the “Indenture”). These statements are qualified in their entirety by reference to the full terms of the Indenture, a copy of which may be obtained from the Agency.

#### DEFINITIONS OF CERTAIN TERMS

##### Additional Revenues

The term “Additional Revenues” means any revenues, other than Tax Revenues, pledged to the payment of the Bonds, including but not limited to, Airport Fund Revenues.

##### Agency

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

##### Agency Indebtedness

The term “Agency Indebtedness” means any obligation the payment of which is to be made in whole or in part (but if in part, only to the extent of that part) out of taxes allocated to the Agency pursuant to Section 33670 of the Law. For purposes of determining compliance with the covenant contained in the Indenture the following assumptions shall apply:

(i) the principal and interest remaining to be paid on Agency Indebtedness shall include only such amounts as are scheduled to be paid by the Agency pursuant to the terms of the loan or other form of agreement under which such Agency Indebtedness was incurred. Agency Indebtedness without a stated maturity shall be deemed to mature on the final maturity date of the Bonds.

(ii) Amounts scheduled to be paid by the Agency shall include regularly scheduled principal and interest payments, including, amounts payable pursuant to any mandatory redemption provision.

(iii) Agency Indebtedness bearing interest at a variable rate of interest shall be deemed to accrue interest at the lesser of the maximum rate specified or 12% per annum.

##### Airport Revenue Fund

The term “Airport Revenue Fund” means the Fund established pursuant to the Indenture.

##### Airport Fund Revenues

The term “Airport Fund Revenues” means all amounts pledged by the County to the payment of the Bonds pursuant to the Second Supplement.

##### Airport System

The term “Airport System” means the whole and each and every part of the existing airport system of the County including Gillespie Field, Ramona Airport, Agua Caliente Airport, Jacumba Airport, McClellan-Palomar Airport, Fallbrook Community Airpark, Borrego Valley Airport and Ocotillo Airport and any other airport or aviation facility owned and operated by the County and designated by the

County to be a part of the Airport System, including certain approved non-aviation facilities, comprising all runways, taxiways, landing pads, navigational and landing aids, control towers, facilities for storage of aircraft and for parking of automobiles, roadways, passenger and freight terminals, lands, easements and rights for clear zone and approach purposes, maintenance hangers and related facilities and all equipment, buildings, grounds, facilities, utilities, and all structures owned, leased or operated by the County in connection with or for the promotion of or the accommodation of air commerce and air navigation and services in connection therewith, together with all additions, betterments, extensions and improvements thereto or any part thereof thereafter acquired and constructed.

#### Annual Administrative Expense Requirement

The term “Annual Administrative Expense Requirement” means an amount equal to \$175,000 for the Bond Year ending December 1, 2006, and increasing by 2% for each Bond Year thereafter.

#### Annual Debt Service; Maximum Annual Debt Service; Average Annual Debt Service

The term “Annual Debt Service” means, for each Bond Year, the sum of (1) the interest falling due on the Outstanding Bonds in such year, assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds, if any, are redeemed from the sinking account as may be scheduled, (2) the principal amount of the Outstanding Serial Bonds, if any, falling due by their terms in such year, and (3) the minimum amount of such Outstanding Term Bonds required to be paid or called and redeemed in such year.

The term “Maximum Annual Debt Service” means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds.

The term “Average Annual Debt Service” means the aggregate Annual Debt Service divided by the number of twelve month periods ending on each Bond Year (including any fractional periods) remaining until the last maturity date of any Outstanding Bond.

#### Auditor

The term “Auditor” means the Auditor and Controller of the County.

#### Authorized Denomination

The term “Authorized Denomination” means \$5,000 or any integral multiple thereof.

#### Authorized Investments

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

A. Direct obligations of the United States of America (including obligations issued or held in book entry, the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the Agency itself);

1. Export-Import Bank (Eximbank)  
Direct obligations of fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FHA)  
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration  
Participation certificates
6. Government National Mortgage Association (GNMA or "Ginnie Mae")  
GNMA - guaranteed mortgage-backed bonds  
GNMA - guaranteed pass-through obligations
7. U.S. Maritime Administration  
Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. Government guaranteed debentures  
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the Agency itself):

1. Federal Home Loan Bank System  
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")  
Participation Certificates  
Senior debt obligations
3. Federal National Mortgage Association (FNMA or "Fannie Mae")  
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or "Sallie Mae")  
Senior Debt obligations
5. Resolution Funding Corp. (REFCORP)  
obligations

D. Money market funds, including those for which the Trustee or any affiliate, provides management, advisory, administrative or other services registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAm G, AAAm, or AAm and by Moody's of Aaa.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations

or mutual savings banks which may include the Trustee and its affiliates. The collateral must be held by a third party and the Trustee on behalf of the Owners must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including those with the Trustee or its affiliates.

G. Investment Agreements, including guaranteed investment contracts, acceptable to the Bond Insurer, if any.

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or banks acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A 1" or "A" or better by S&P.

K. Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase agreements must satisfy the following criteria or be approved by the Bond Insurer, if any.

1. Repurchase Agreements must be between the Agency or Trustee, as applicable, and a dealer bank or securities firm

a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's, or

b. Banks rated "A" or above by S&P and Moody's.

2. Each repurchase agreement contract must be in writing and must include the following:

a. Securities which are acceptable for transfer are:

(1) Direct U.S. governments, or

(2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FMAC)

b. The term of each repurchase agreement may be up to 30 days

c. The collateral must be delivered to the Agency or Trustee, as applicable (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).



d. Valuation of Collateral

(1) The securities must be valued weekly, marked to market at current market price plus accrued interest.

(a) The value of collateral must be equal to 104% of the amount of cash transferred by the Agency or Trustee, as applicable, to the dealer bank or security firm under the repurchase agreement, plus accrued interest. If, however, the securities used as collateral are FNMA or FMAC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the Agency and Trustee to the effect that the repurchase agreement meets guidelines under state law for legal investment or public funds.

L. Any state-administered pool investment fund in which the issuer is statutorily permitted or required to invest; provided, that such investment is held in the name and to the credit of the Trustee.

M. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended; provided that such shares are held in the name and to the credit of the Trustee.

N. The San Diego County Investment Pool.

Beneficiary or Beneficiaries

The term “Beneficiary” or “Beneficiaries” means the Owners of the Series 2005A Bonds who are third party beneficiaries of the Second Supplement and therefore deemed “Beneficiaries” of an Airport Fund Obligation in accordance with the Master Pledge Agreement and the Indenture.

Book Entry Bonds

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

Bonds, Series 2005A Bonds, Series 2005A-1 Bonds, Series 2005AMT Bonds, Additional Bonds, Serial Bonds, Term Bonds

The term “Bonds” means the Series 2005A Bonds and all Additional Bonds.

The term “Series 2005A Bonds” means the Series 2005A-1 Bonds and the Series 2005AMT Bonds.

The term “Series 2005A-1 Bonds” means the Redevelopment Agency of the County of San Diego, Gillespie Field Project Revenue Refunding Bonds, Series 2005A-1.

The term “Series 2005AMT Bonds” means the Redevelopment Agency of the County of San Diego, Gillespie Field Project Revenue Refunding Bonds, Series 2005AMT.

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

The term “Serial Bonds” means Bonds for which no mandatory sinking account payments are provided.

The term “Term Bonds” means Bonds which are payable on or before their specified maturity dates from mandatory sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

#### Bond Insurance Policy

The term “Bond Insurance Policy” means the municipal bond insurance policy, if any, issued by the applicable Bond Insurer and guaranteeing, in whole or in part, the payment of principal of and interest on a Series of Bonds. The Series 2005A Bonds are NOT guaranteed by a Bond Insurance Policy.

#### Bond Insurer

The term “Bond Insurer” means the issuer or issuers of a policy or policies of municipal bond insurance obtained by the Agency to insure the payment of principal of and interest on a Series of Bonds issued under the Indenture, when due otherwise than by acceleration, and which, in fact, are at any time insuring such Series of Bonds. For the purposes of this definition, all consents, approvals or actions required by the Bond Insurer shall be unanimous action of all Bond Insurers if there is more than a single Bond Insurer. There is no Bond Insurer for the Series 2005A Bonds.

#### Bond Year

The term “Bond Year” means (i) with respect to the initial Bond Year, the period extending from the date the Series 2005A Bonds are originally delivered to December 1, 2006, and (ii) thereafter, each twelve month period extending from the day immediately following December 1 in any calendar year to the December 1 in the next following calendar year, all dates inclusive. Notwithstanding the foregoing, the term Bond Year as used in that section of the Indenture pertaining to the Tax Covenants, is defined in the manner set forth in the Rebate Certificate.

#### Certificate of the Agency

The term “Certificate of the Agency” means an instrument in writing signed by the Chairperson of the Agency, the Capital Finance Manager, or by any other officer of the Agency duly authorized by the Agency for that purpose.

#### County

The term “County” means the County of San Diego, California.

#### Code

The term “Code” means the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder.

#### Combined Revenues

The term “Combined Revenues” means all Tax Revenues and Airport Fund Revenues.

### Consultant's Report

The term "Consultant's Report" means a report signed by an Independent Financial Consultant or an Independent Redevelopment Consultant, as may be appropriate to the subject of the report, and including:

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

### Depository

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

### DTC

The term "DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

### Federal Securities

The term "Federal Securities" means United States Treasury notes, bonds, bills or certificates of indebtedness, or other evidences of indebtedness secured by the full faith and credit of the United States of America; and also any securities now or hereafter authorized both the interest on and principal of which are guaranteed directly by the full faith and credit of the United States of America, as and to the extent that such securities are eligible for the legal investment of Agency funds. The Trustee may rely upon any investment direction of the Agency as a certification that such investments are legal investments for Agency funds.

### Second Supplement

The term "Second Supplement" means the Second Supplemental Pledge Agreement, dated as of December 1, 2005, by and among the Agency, the County and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

### Fiscal Year

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

### Housing Fund

The term "Housing Fund" means the Low and Moderate Income Housing Fund, established pursuant to Section 33334.3 of the Law with respect to the Project Area and held by the Agency.

### Indenture

The term “Indenture” means the Indenture and all Supplemental Indentures.

### Independent Certified Public Accountant

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

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

### Independent Financial Consultant

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

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

### Independent Redevelopment Consultant

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

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

### Information Services

The term “Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 55 Broad Street, 28th Floor, New York, New York 10004; Moody’s Investors Service, 5250-77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; and Standard and Poor’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or to such other addresses and/or such other services providing information with respect to called bonds as the Agency may designate to the Trustee in writing.

### Interest Payment Date

The term “Interest Payment Date” means each June 1 or December 1 on which interest on any Series of Bonds is scheduled to be paid, commencing June 1, 2006.

### Investment Agreement

The term “Investment Agreement” means an investment agreement or guaranteed investment contract by and between the Trustee and a national or state chartered bank or savings and loan institution (including the Trustee) or other financial institution the long term debt obligations of which (or the guarantor of which) are rated “A” or higher by Standard & Poor’s Corporation or “A” or higher by Moody’s Investors Service, in each case without regard to negative modifiers, respecting the investment of moneys in certain funds or accounts established pursuant to the Indenture.

### Law

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

### Letter of Representations

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

### Master Pledge Agreement

The term “Master Pledge Agreement” means the Amended and Restated Master Pledge Agreement dated as of December 1, 2005, made by the County.

### Moody’s

The term “Moody’s” means Moody’s Investors Service, or any rating agency which is a successor thereto.

### Nominee

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

### Outstanding

The term “Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to Disqualified Bonds) all Bonds except:

- (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
  - (2) Bonds paid or deemed to have been paid within the meaning of the Indenture;
- and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Agency pursuant to the Indenture.

Owner

The term “Owner” means the registered owner of any Outstanding Bond.

Participants

The term “Participants” shall mean those broker dealers, banks and other financial institutions from time to time for which the Depository holds Book Entry Bonds as securities depository.

Pledged Installments

The term “Pledged Installments” means the payments so designated and required to be made by the County pursuant to Section 3.2 of the Second Supplement.

Principal Corporate Trust Office

The term “Principal Corporate Trust Office” means the corporate trust office of the Trustee in Los Angeles, California, or such other office designated by the Trustee from time to time.

Principal Payment Date

The term “Principal Payment Date” means any date on which principal on any Series of Bonds is scheduled to be paid, which dates shall be as set forth in the Indenture for the Series 2005A Bonds.

Project

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

Project Area

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

Qualified Reserve Instrument

The term “Qualified Reserve Instrument” means a letter of credit or an insurance policy meeting the requirements as described in the Indenture.

Record Date

The term “Record Date” means the 15th day of the month next preceding each Interest Payment Date, whether or not such day is a business day.

Redevelopment Plan

The term “Redevelopment Plan” means the redevelopment plan for the Gillespie Field Project, adopted and approved as the Redevelopment Plan for the Project by Ordinance No. 7339, adopted by the Board of Supervisors of the County on July 7, 1987, together with all amendments thereto thereafter made in accordance with the Law.

### Reserve Account Requirement

The term “Reserve Account Requirement” means an amount equal to the lesser of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of each Series of Bonds Outstanding, (ii) 125% of Average Annual Debt Service of the Bonds or (iii) Maximum Annual Debt Service on all Outstanding Bonds; provided that for the purpose of such calculations, there shall be excluded an amount of Bonds or debt service thereon equal to the amount deposited in any escrow fund established pursuant to the Indenture.

### San Diego County Investment Pool

The term “San Diego County Investment Pool” means the San Diego County Investment Pool administered by the San Diego County Treasurer-Tax Collector.

### Securities Depositories

The term “Securities Depositories” shall mean: The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232; or to such other addresses and/or such other securities depositories as the Agency may designate to the Trustee in writing.

### Series

The term “Series,” when used with reference to the Bonds, means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture or a Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

### Settlement Agreement

The term “Settlement Agreement” means that certain Settlement Agreement among the County, the Agency, the Cajon Valley Union School District, the Santee School District, the Grossmont Union High School District and the County Superintendent of Schools, dated as of June 20, 1989.

### Sinking Account Installment

The term “Sinking Account Installment” means the amount of money required by or pursuant to the Indenture to be paid by the Agency on any single date toward the retirement of any particular Term Bonds of any particular Series on or prior to their respective stated maturities.

### Sinking Account Payment Date

The term “Sinking Account Payment Date” means any date on which Sinking Account Installments on any Series of Bonds are scheduled to be paid.

### S&P

The term “S&P” means Standard & Poor’s Rating Group, or any rating agency which is a successor thereto.

### Supplemental Indenture

The term “Supplemental Indenture” means any indenture then in full force and effect which has been entered into by the Agency and the Trustee, amendatory of or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

### Tax Allocation Account

The term “Tax Allocation Account” means the account in the Debt Service Fund established pursuant to the Indenture.

### Tax Certificate

The term “Tax Certificate” means the Tax Certificate dated the date of the original delivery of each Series of Bonds (except any Series of Bonds which is not intended to meet the requirements for tax exemption under the Code) relating to the requirements of the Code, as each such certificate may from time to time be modified or supplemented in accordance with the terms thereof.

### Tax Exempt Bonds

The term “Tax Exempt Bonds” means any Series of Bonds which the Agency intends to have comply with the requirements of the Code necessary to make interest on such Series of Bonds excludable from gross income for federal income tax purposes.

### Tax Revenues

The term “Tax Revenues” means, for each Fiscal Year, the taxes (including all payments, reimbursements and subventions, if any, specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations) eligible for allocation to the Agency pursuant to the Law in connection with the Project Area, excluding (a) amounts, if any, required to be deposited by the Agency in the Housing Fund and used for certain housing purposes, provided, however, that such amounts shall not be excluded if and to the extent that the Agency makes such amounts available as Tax Revenues, (b) amounts required to be paid to certain school districts pursuant to the Settlement Agreement, (c) amounts paid to the Metropolitan Water District of Southern California and Grossmont Community College District and (d) amounts, if any, payable pursuant to Section 33607.5 of the Law but only to the extent such amounts are not subordinated to the payment of debt service on the Bonds.

### Treasurer

The term “Treasurer” means the Treasurer-Tax Collector of the County.

### Trustee

The term “Trustee” means such trustee at its principal corporate trust office in Los Angeles, California, as may be appointed by the Agency and acting as an independent trustee with the duties and powers therein provided, and its successors and assigns, or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

### Turbo Redemption Amount

The term “Turbo Redemption Amount” means, as calculated by the Agency, for each Bond Year, commencing with the Bond Year ending on December 1, 2016, an amount equal to 30% of the following: Tax Revenues less Annual Debt Service for such Bond Year less the Annual Administrative Expense Requirement. The Trustee may conclusively rely upon the Agency’s calculations.



### Turbo Redemption Account

The term “Turbo Redemption Account” means the Account by that name established in the Indenture.

### Written Request of the Agency

The term “Written Request of the Agency” means an instrument in writing signed by the Chairperson of the Agency, or by any other officer of the Agency duly authorized by the Agency for that purpose.

## **THE INDENTURE**

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

(a) The Agency shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indentures, and a Certificate of the Agency to that effect shall have been filed with the Trustee.

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

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

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

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

(4) The Interest Payment Dates for such Additional Bonds; provided that Interest Payment Dates shall be on the same semiannual dates as the Interest Payment Dates for Series 2005A Bonds;

(5) The denomination of such Additional Bonds;

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

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

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

(9) The amount, if any, to be deposited from the proceeds of such Additional Bonds into the Reserve Account; provided that the amount on deposit in the Reserve Account shall be increased at or prior to the time such Additional Bonds become Outstanding to an amount at least equal to the Reserve Account Requirement on all then Outstanding Bonds and such Additional Bonds, which amount shall be maintained in the Reserve Account;

(10) The form of such Additional Bonds; and

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

(c) The Tax Revenues based upon the assessed valuation of taxable property in the Project Area as shown on the most recently equalized assessment roll and the most recently established tax rates preceding the date of the Agency's adoption of the Supplemental Indenture providing for the issuance of such Additional Bonds shall be in an amount equal to at least 125% of the Maximum Annual Debt Service on all then Outstanding Bonds and such Additional Bonds and any unsubordinated loans, advances or indebtedness payable from Tax Revenues pursuant to the Law.

For the purposes of the issuance of Additional Bonds, Outstanding Bonds shall not include any Bonds the proceeds of which are deposited in an escrow fund held by an escrow agent, provided that the Supplemental Indenture authorizing issuance of such Additional Bonds shall provide that: (A) such proceeds shall be deposited or invested with or secured by an institution rated "AA" by S&P or "Aa" by Moody's (without regard to negative modifiers) at a rate of interest which, together with amounts made available by the Agency from bond proceeds or otherwise, is at least sufficient to pay Annual Debt Service on the foregoing Bonds; (B) moneys may be transferred from said escrow fund only if Tax Revenues for the next preceding fiscal year will be at least equal to 125% of Maximum Annual Debt Service on all Outstanding Bonds less a principal amount of Bonds which is equal to moneys on deposit in said escrow fund after each such transfer; and (C) Additional Bonds shall be redeemed from moneys remaining on deposit in said escrow fund at the expiration of a specified escrow period in such manner as may be determined by the Agency.

In the event such Additional Bonds are to be issued solely for the purpose of refunding and retiring any Outstanding Bonds, interest and principal payments on the Outstanding Bonds to be so refunded and retired from the proceeds of such Additional Bonds being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service. Nothing contained in the Indenture shall limit the issuance of any tax allocation bonds of the Agency payable from Tax Revenues and secured by a lien and charge on Tax Revenues if, after the issuance and delivery of such tax allocation bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding nor shall anything contained in the Indenture prohibit the issuance of any tax allocation bonds or other indebtedness by the Agency secured by a pledge of tax increment revenues (including Tax Revenues) subordinate to the pledge of Tax Revenues securing the Bonds.

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

- (1) A certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;
- (2) A Written Request of the Agency as to the delivery of such Additional Bonds;
- (3) An opinion of counsel of recognized standing in the field of law relating to municipal bonds to the effect that (a) the Agency has the right and power under the Law to execute and deliver the Indenture and all Supplemental Indentures thereto, and the Indenture and all such Supplemental Indentures have been duly and lawfully executed and delivered by the Agency, are in full force and effect and are valid and binding upon the Agency and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights), and no other authorization for the Indenture or such Supplemental Indentures is required; (b) the Indenture creates the valid pledge which it purports to create of the Tax Revenues as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (c) such Additional Bonds are valid and binding special obligations of the Agency, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures and the Law, and such Additional Bonds have been duly and validly authorized and issued in accordance with the Law and the Indenture and all such Supplemental Indentures;
- (4) A Certificate of the Agency that the conditions set forth in the Indenture relating to the issuance of Additional Bonds have been complied with;
- (5) A Certificate of the Agency containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture; and
- (6) Such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Additional Bonds.

**Limit on Indebtedness.** The Agency covenants with the Owners of all of the Bonds at any time Outstanding that it will not enter into any Agency Indebtedness or make any expenditure payable from taxes allocated to the Agency under the Law the payments of which, together with payments theretofore made or to be made with respect to other Agency Indebtedness (including, but not limited to the Bonds) previously entered into by the Agency, would exceed the then effective limit on the amount of taxes which can be allocated to the Agency pursuant to the Law and the Redevelopment Plan.

In furtherance of the above covenant, the Agency will cause to be prepared and filed with the Trustee annually, within 180 days after the close of each Fiscal Year, so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Gross Tax Increment (defined therein as, all monies allocated to the Agency pursuant to Section 33670 of the Law and the Redevelopment Plan, including amounts required to be deposited into the Low and Moderate Income Housing Fund, payments due under any tax sharing agreements (unless excluded from the Tax Increment Limitation, therein defined) and payments received as subventions or payments in lieu of taxes) as of the end of such Fiscal Year. Based upon such audited financial statements, the Agency will prepare or cause to be prepared and filed with the Trustee and the Bond Insurer, if any, a pro forma statement demonstrating the future availability of sufficient tax increment revenues (within the existing limitation on the amount of Gross Tax Increment allocable and payable to the Agency under the Redevelopment Plan (the "Tax Increment Limitation")) to pay when due (i) Agency Indebtedness, (ii) the amount payable in the then current Fiscal Year included within the Tax Increment Limitation which are required by Section 33334.2 of the Redevelopment Law to be deposited in the Agency's Low and

Moderate Income Housing Fund (the “Set-Aside Requirement”), and (iii) all amounts included within the Tax Increment Limitation which are payable pursuant to the pass-through agreements until the final maturity of the Bonds (the “Pass-Through Payments”). The audited financial statements and the pro forma statement shall be accompanied by a written certificate of the Agency stating that the Agency is in compliance with its obligations under the Indenture. The Trustee shall not be responsible for the review of such financial statements.

The pro forma statement shall be prepared on or before March 1 of each year or as soon thereafter as practicable, commencing March 1, 2007, and shall set forth:

(1) The difference between the Tax Increment Limitation less the total amount of Gross Tax Increment theretofore allocated to the Agency (the “Remaining Limitation Amount”); and

(2) The principal and interest remaining to be paid on Agency Indebtedness, plus the Set-Aside Requirement and the Pass-Through Payments (collectively, the “Total Debt Service”).

To the extent the Remaining Limitation Amount is less than 105% of the Total Debt Service, the pro forma statement shall set forth the principal amount of the Bonds (to the nearest integral multiple of \$5,000) that must be retired in order for the Remaining Limitation Amount to be at least equal to 105% of the Total Debt Service (the “Prepayment Amount”). At the time the Remaining Limitation Amount is determined to be less than 105% of the Total Debt Service, the Agency shall notify the Trustee of the Prepayment Amount and transfer such Prepayment Amount to the Trustee for deposit in the Redemption Account. Such monies shall be used to redeem, prepay or defease the Bonds. Notwithstanding the above, if prior to any such redemption, prepayment or defeasance, a subsequent annual pro forma statement indicates that future Gross Tax Increment will be 105% or more of the Total Debt Service in each year such debt service is payable, the Agency may authorize the Trustee to transfer such Tax Revenues from the Redemption Account to the Special Fund.

**Pledge of Combined Revenues.** All of the Combined Revenues and all money in the Revenue Fund, hereinafter established, and in the funds or accounts so specified and provided for in the Indenture (except the Rebate Fund), are irrevocably pledged to the punctual payment of the interest on and principal of and redemption premiums, if any, on the Bonds, and the Combined Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth therein. This pledge shall constitute a first and exclusive lien on the Combined Revenues and such other money for the payment of the Bonds in accordance with the terms thereof.

**Revenue Fund; Debt Service Fund; Receipt and Deposit of Tax Revenues.** There is established a special fund to be known as the “Redevelopment Agency of the County of San Diego, Gillespie Field Project Tax Revenue Account of the Special Fund” (herein the “Revenue Fund”) which shall be held by the Agency. The Agency shall promptly deposit all of the Tax Revenues received in any Bond Year in the Revenue Fund, until such time during such Bond Year as the amounts on deposit in the Revenue Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Debt Service Fund in such Bond Year. All Tax Revenues received by the Agency during any Bond Year in excess of the amount required to be deposited in the Revenue Fund during such Bond Year pursuant to the preceding sentence may be released from the pledge and lien under the Indenture. So long as any Bonds remain Outstanding under the Indenture, the Agency shall not have any beneficial interest in or right to the moneys on deposit in the Revenue Fund, except as may be provided in the Indenture.

There is established a special fund to be known as the “Redevelopment Agency of the County of San Diego, Gillespie Field Project, Revenue Refunding Bonds Debt Service Fund” (herein the “Debt Service Fund”) which shall be held by the Trustee. On or before five (5) days preceding each Interest Payment Date, the Agency shall transfer from the Revenue Fund to the Trustee for deposit in the Debt

Service Fund an amount equal to the amount required to be transferred by the Trustee from the Debt Service Fund to the Interest Account, Principal Account, Sinking Account, Reserve Account and the Turbo Redemption Account pursuant to the Indenture; provided, that the Agency shall not be obligated to transfer to the Trustee in any Bond Year an amount of Tax Revenues which, together with other available amounts then in the Debt Service Fund, exceeds the amounts required to be transferred to the Trustee for deposit in the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Turbo Redemption Account in such Bond Year, pursuant to the Indenture. There shall not be deposited with the Trustee any taxes eligible for allocation to the Agency for deposit in the Debt Service Fund in an amount in excess of that amount which, together with all money then on deposit with the Trustee in the Debt Service Fund and the accounts therein, shall be sufficient to discharge all Outstanding Bonds as provided in the Indenture.

All such Tax Revenues deposited in the Revenue Fund shall be disbursed, allocated and applied solely to the uses and purposes therein set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Agency.

**Establishment of Funds.** In addition to the Revenue Fund and the Debt Service Fund, there are further created a special trust fund to be held by the Agency called the “Redevelopment Agency of the County of San Diego, Gillespie Field Project Redevelopment Fund” (the “Redevelopment Fund”); and a special trust fund to be held by the Trustee called the “Redevelopment Agency of the County of San Diego, Gillespie Field Project Expense Fund” (the “Expense Fund”). The Redevelopment Fund shall contain two Accounts, the Series 2005A-1 Account and the Series 2005AMT Account. The Redevelopment Fund may be consolidated with any other similar fund or account established for the purposes described in the Indenture; provided, that proceeds of Bonds deposited in such fund shall be separately accounted for to the extent appropriate or as required by any Tax Certificate.

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

Pursuant to the Tax Certificate, the funds and accounts established therein may be divided into sub accounts for each Series of Bonds issued under the Indenture, in order to perform the necessary rebate calculations.

**Redevelopment Fund.** Moneys in the Redevelopment Fund shall be used and disbursed in the manner provided by law for the purpose of aiding in financing or refinancing the Project (or for making reimbursements to the Agency for such costs theretofore paid by it), including payment of all costs incidental to or connected with such financing or refinancing. Any balance of money remaining in the Redevelopment Fund after the date of completion of the financing or refinancing of the Project shall be deposited in the Revenue Fund.

The Agency shall pay moneys from the Redevelopment Fund upon receipt of requisitions drawn thereon and signed by at least one duly authorized officer or member of the Agency. The Agency warrants that each withdrawal from the Redevelopment Fund shall be made in the manner provided by law for the purpose of aiding in financing or refinancing the Project or for making reimbursements to the Agency for such costs theretofore paid by the Agency.

**Expense Fund.** All moneys in the Expense Fund shall be applied to the payment of costs and expenses incurred by the Agency in connection with the authorization, issuance and sale of the Bonds. Upon the payment in full of such costs and expenses or the making of adequate provision for the payment thereof, evidenced by a Certificate of the Agency to the Trustee, any balance remaining in such Fund shall be transferred to the Agency and deposited by the Agency in the Redevelopment Fund established pursuant to the Indenture, and pending such transfer and application, the moneys in such Fund may be

invested as permitted by the Indenture; provided, however, that investment income resulting from any such investment shall be retained in the Expense Fund.

**Establishment and Maintenance of Accounts for Use of Moneys in the Debt Service Fund.**

All moneys in the Debt Service Fund shall be set aside by the Trustee in each Bond Year when and as received in the following respective special accounts within the Debt Service Fund (each of which is created and each of which the Agency covenants and agrees to cause to be maintained with the Trustee), in the following order of priority (except as otherwise provided in subsection (2) below):

- (1) Interest Account;
- (2) Principal Account;
- (3) Sinking Account;
- (4) Reserve Account; and
- (5) Turbo Redemption Account.

All moneys in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized as described below.

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

(2) Principal Account. The Trustee shall set aside from the Debt Service Fund and deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to the aggregate amount of the principal becoming due and payable on all Outstanding Serial Bonds on the Principal Payment Date in such Bond Year. In the event that there shall be insufficient money in the Debt Service Fund to make in full all such principal payments and Sinking Account Installments required to be made pursuant to the Indenture in such Bond Year, then, subject to subparagraph (4) below, the money available in the Debt Service Fund shall be applied pro rata to the making of such principal payments and such Sinking Account Installments in the proportion which all such principal payments and Sinking Account Installments bear to each other.

No deposit need be made into the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds becoming due and payable on the Principal Payment Date in such Bond Year.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Serial Bonds as they shall become due and payable.

(3) Sinking Account. The Trustee shall deposit in the Sinking Account an amount of money equal to the Sinking Account Installment payable on the Sinking Account Payment Date in such Bond Year. All moneys in the Term Bonds Sinking Account shall be used by the Trustee to redeem (or purchase) the Term Bonds in accordance with the Indenture.

(4) Reserve Account. (a) The Trustee shall set aside from the Debt Service Fund and deposit in the Reserve Account an amount of money (or other authorized deposit of security, as contemplated by the following paragraphs) equal to the Reserve Account Requirement. No deposit need be made in the Reserve Account so long as there shall be on deposit therein an amount equal to the Reserve Account Requirement. All money in (or available to) the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account or the Sinking Account in such order, in the event of any deficiency at any time in any of such accounts, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all Bonds then Outstanding, except that for so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Account Requirement shall be transferred from the Reserve Account by the Trustee to the Debt Service Fund.

(b) In lieu of making the Reserve Account Requirement deposit in the Reserve Account or in replacement of moneys then on deposit in the Reserve Account (which shall be transferred by the Trustee to the Agency upon delivery of a letter of credit satisfying the requirements stated below), the Agency, with the consent of the Bond Insurer, if any, and with prior written notification to S&P and/or Moody's, if the Bonds are then rated by S&P and/or Moody's, may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having, at the time of such delivery, unsecured debt obligations rated in at least the second highest rating category (without respect to any negative modifier) of S&P and/or Moody's, in an amount, together with moneys, Authorized Investments or insurance policies (as described in the Indenture) on deposit in the Reserve Account, equal to the Reserve Account Requirement. Draws on such letter of credit must be payable no later than two (2) Business Days after presentation of a sight draft thereunder. Such letter of credit shall have a term of no less than three (3) years. The issuer of such letter of credit shall be required to notify the Trustee and the Agency whether or not the letter of credit will be extended no later than 13 months prior to the stated expiration date thereof. At least one year prior to the stated expiration of such letter of credit, the Agency shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year, or (iii) deliver to the Trustee an insurance policy satisfying the requirements of the Indenture. Upon delivery of such replacement letter of credit, extended letter of credit, or insurance policy, the Trustee shall cancel and deliver the then effective letter of credit to the issuer thereof. If the Agency shall fail to deposit a replacement letter of credit, extended letter of credit or insurance policy with the Trustee, the Agency shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Account Requirement is on deposit in the Reserve Account no later than the stated expiration date of the letter of credit. If the Agency shall fail to make such deposits, the Trustee shall draw on such letter of credit on or before 10 days prior to its stated expiration date in an amount necessary to replenish the Reserve Account to the Reserve Account Requirement. If a drawing is made on the letter of credit, the Agency shall make such payments as may be required by the terms of the letter of credit or any obligations related thereto (but no less than quarterly pro rata payments) so that the letter of credit shall, absent the delivery to the Trustee of an insurance policy satisfying the requirements of the Indenture or the deposit in the Reserve Account of an amount sufficient to increase the balance in the Reserve Account to the Reserve Account Requirement, be reinstated in the amount of such drawing within one year of the date of such drawing.

(c) In lieu of making the Reserve Account Requirement in the Reserve Account or in replacement of moneys then on deposit in the Reserve Account (which shall be transferred by the Trustee to the Agency upon delivery of an insurance policy satisfying the requirements stated below), the Agency, with the consent of the Bond Insurer, if any, and with prior written notification to S&P and/or Moody's, if the Bonds are then rated by S&P and/or Moody's, may also deliver to the Trustee an insurance policy securing an amount, together with moneys, Authorized Investments or letters of credit (as described in the Indenture) on deposit in the Reserve Account, no less than the Reserve Account Requirement, issued by an insurance company licensed to issue insurance policies guaranteeing the timely payment of debt service on the Bonds and whose unsecured debt obligations (or for which obligations secured by such

insurance company's insurance policies), at the time of such delivery, are rated in the two highest rating categories (without respect to any negative modifier) of S&P and Moody's.

(d) If and to the extent that the Reserve Account has been funded with a combination of cash (or Authorized Investments) and a Qualified Reserve Instrument, then all such cash (or Authorized Investments) shall be completely used before any demand is made on such Qualified Reserve Instrument, and replenishment of the Qualified Reserve Instrument shall be made prior to any replenishment of any cash (or Authorized Investments). If the Reserve Account is funded, in whole or in part, with more than one Qualified Reserve Instrument, then any draws made against such Qualified Reserve Instrument shall be made pro-rata.

(5) Turbo Redemption Account. The Trustee shall deposit in the Turbo Redemption Account an amount of money equal to the Turbo Redemption Amount. All moneys in the Turbo Redemption Account shall be used by the Trustee to optionally redeem (or purchase) Series 2005A Bonds in the following order: (1) Series 2005AMT Term Bonds and (2) all other Series 2005A Bonds. All such redemptions of Series 2005AMT Term Bonds will be credited against Sinking Account Installments in inverse order of the Sinking Installment Dates. All such Redemptions from amounts deposited in the Turbo Redemption Account shall be in Authorized Denominations on any date specified by the Agency during the Bond Year in which such deposit is made and for which a redemption may occur pursuant to the Indenture, or if no date is specified by the Agency, on December 1 of such Bond Year.

(6) Surplus. If during any Bond Year (i) Tax Revenues remain in the Debt Service Fund after providing (or otherwise reserving) for all deposits required by paragraphs (1) through (3) above during such Bond Year, (ii) the amounts on deposit in the Reserve Account equal the Reserve Account Requirement, (iii) Qualified Reserve Instruments, if any, used to fund the Reserve Account are fully replenished and all interest on amounts advanced under such Qualified Reserve Instruments has been paid to the provider thereof and (iv) the Agency is not in default under the Indenture, then the Trustee shall transfer any amount remaining on deposit in the Debt Service Fund to the Agency to be used for any lawful purpose of the Agency.

**Airport Revenue Fund; Receipt and Deposit of Airport Fund Revenues.** There is established a special fund to be known as the "Redevelopment Agency of the County of San Diego, Gillespie Field Project Airport Revenue Fund" (herein the "Airport Revenue Fund") which shall be held by the Trustee. The Trustee shall promptly deposit in the Airport Revenue Fund all of the Airport Fund Revenues transferred to it by the County. So long as any Bonds remain Outstanding under the Indenture, neither the Agency nor the County shall have any beneficial interest in or right to the moneys on deposit in the Airport Revenue Fund, except as may be provided in the Indenture.

To the extent amounts transferred from the Revenue Fund to the Debt Service Fund pursuant to the Indenture are insufficient to make the deposits required by the Indenture, the Trustee shall transfer from the Airport Revenue Fund for deposit in the Debt Service Fund an amount equal to the amount of any such deficiency in the Interest Account, the Principal Account, the Sinking Account or the Reserve Account. Any amounts remaining in the Airport Revenue Fund following such transfer shall be credited to the next Pledged Installment due from the County.

All such Airport Fund Revenues deposited in the Airport Revenue Fund shall be disbursed, allocated and applied solely to the uses and purposes therein set forth, and shall be accounted for separately and apart from all other money, funds or accounts held under the Indenture.

**Investment of Moneys in Funds and Accounts.** Upon the written direction of the Agency, received by the Trustee at least two (2) Business Days prior to such investment, moneys in the Debt Service Fund, the Interest Account, the Principal Account, any Sinking Account, the Expense Fund, the Rebate Fund, the Reserve Account and the Airport Revenue Fund shall be invested by the Trustee in



Authorized Investments. In the absence of such instructions the Trustee shall invest in the investments described in paragraph (D) of the definition of Authorized Investments, except as otherwise provided in the Indenture. The obligations in which moneys in the Debt Service Fund, the Interest Account, the Principal Account, any Sinking Account and the Airport Revenue Fund are so invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. The obligations in which moneys in the Reserve Account are so invested shall be invested in obligations maturing no more than five years from the date of purchase by the Trustee or on the final maturity date of the Bonds, whichever date is earlier; provided, however, that if an obligation may be redeemed at par on the business day prior to each Interest Payment Date during which such obligation is outstanding, such obligation may have any maturity. In addition, amounts held in the Reserve Account shall be invested only in Authorized Investments described in paragraphs (A), (B), (D) and (G) of the definition of Authorized Investments. Any interest, income or profits from the deposits or investments of all funds (except the Revenue Fund, Airport Revenue Fund, Redevelopment Fund, Expense Fund and Rebate Fund) and accounts shall be deposited in the Debt Service Fund. All earnings on amounts in the Revenue Fund, Airport Revenue Fund, Expense Fund, Redevelopment Fund and Rebate Fund shall remain in such funds. For purposes of determining the amount on deposit in any fund or account held under the Indenture, all Authorized Investments credited to such fund or account shall be valued at the cost thereof (excluding accrued interest and brokerage Commissions, if any). Except as otherwise provided in the Indenture, Authorized Investments representing an investment of moneys attributable to any fund or account and all investment profits or losses thereon shall be deemed at all times to be a part of said fund or account. Amounts deposited in the Revenue Fund and the Redevelopment Fund may be invested in any investment permitted by law for Agency funds.

The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of investments under the Indenture. The Trustee may commingle moneys in any of the funds or accounts created under the Indenture for purposes of investment. The Trustee may conclusively rely on the instructions of the Agency that the Authorized Investment is a legal investment under the laws of the State of California for such purposes. Absent negligence, bad faith or willful misconduct by the Trustee, the Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Indenture.

The Agency acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Agency the right to receive brokerage confirmations of security transactions as they occur, the Agency will not receive such confirmations from the Trustee to the extent permitted by law. The Trustee will furnish the Agency periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

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

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

**Extension or Funding of Claims for Interest.** In order to prevent any claims for interest after maturity, the Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any Bonds and will not, directly or indirectly, be a party to or approve any such arrangements by purchasing or funding said claims for interest or in any other manner.

In case any such claim for interest shall be extended or funded, whether or not with the consent of the Agency, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

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

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

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

The Agency will prepare and file with the Trustee annually as soon as practicable, but in any event not later than one hundred eighty (180) days after the close of each Fiscal Year, so long as any Bonds are Outstanding, an audited financial statement of the Agency prepared by an Independent Certified Public Accountant. The Agency will furnish a copy of such audited financial statement to any Owner upon request. The Trustee is authorized to furnish and the Agency will furnish to the Trustee such reasonable number of copies of such audited financial statement as may be required by the Trustee for distribution (at the expense of the Agency) to investment bankers, security dealers and others interested in the Bonds. The Trustee shall have no duty or responsibility to review such financial statements.

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

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

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

**Taxation of Leased Property.** Whenever any property in the Project is redeveloped by the Agency and thereafter is leased by the Agency to any person or persons, or whenever the Agency leases any real property in the Project to any person or persons for redevelopment, the property shall be assessed

and taxed in the same manner as privately owned property (in accordance with the Law), and the lease or contract shall provide (1) that the lessee shall pay taxes upon the assessed value of the entire property and not merely upon the assessed value of the leasehold interest, and (2) that if for any reason the taxes paid by the lessee on such property in any year during the term of the lease shall be less than the taxes that would have been payable upon the entire property if the property were assessed and taxed in the same manner as privately owned property, the lessee shall pay such difference to the Agency within thirty (30) days after the taxes for such year become payable, and in any event prior to the delinquency date of such taxes established by law, which such payments shall be treated as Tax Revenues.

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

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

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

All such payments to the Agency in lieu of taxes shall be treated for all purposes as Tax Revenues.

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

**Tax Revenues.** The Agency shall comply with all requirements of the Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of Los Angeles County. The Agency shall, in addition, comply with all requirements of the Law relating to the deposit of tax revenues allocated to the Agency from the Project Area in the Low and Moderate Income Housing Fund, established by the Agency pursuant to Section 33334.3 of the Law.

**Investment Agreement.** The Agency covenants that it will not modify or amend any Investment Agreement without first obtaining the written consent of the Bond Insurer, if any, and an opinion of nationally recognized bond counsel to the effect that the proposed modification or amendment will not constitute a violation of the Indenture or cause interest on the Bonds of any Series which are intended to be Tax Exempt Bonds to be included in gross income for federal income tax purposes.

**Tax Covenants; Rebate Fund.** (a) In addition to the accounts created pursuant to Article V, the Trustee shall establish and maintain with respect to each Series of Bonds issued under the Indenture (other than any Series of Bonds which the Agency shall certify to the Trustee is exempt from the requirements of Section 148 of the Code related to rebate of arbitrage earnings) a fund separate from any other fund or account established and maintained under the Indenture designated as the “Series \_\_\_\_\_ Rebate Fund” referred to as the “Rebate Fund.” These provisions shall apply separately to each Rebate Fund established for each Series of Bonds. Upon the written direction of the Agency, there shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding the provisions of the Indenture relating to the pledge of Tax Revenues, the allocation of money in the Revenue Fund, the investments of money in any fund or account and the defeasance of Outstanding Bonds, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the relevant provisions of the Indenture and by the Tax Certificate (which is incorporated therein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the Written Request of the Agency, and shall have no liability or responsibility to enforce compliance by the Agency with the terms of the Tax Certificate or any of the covenants of the Agency in this section.

(b) The Agency shall not use or permit the use of any proceeds of Bonds or any funds of the Agency, directly or indirectly, to acquire any securities or obligations, and shall not take or permit to be taken any other action or actions, which would cause any Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code of “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time thereunder and under Section 103(c) of the Internal Revenue Code of 1954, as amended. The Agency shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Agency shall comply with all requirements of Sections 148 and 149(d) of the Code to the extent applicable to the Bonds. In the event that at any time the Agency is of the opinion that it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Agency shall so instruct the Trustee under the Indenture in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

The Agency shall not use or permit the use of any proceeds of the Bonds or any funds of the Agency, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

(c) Notwithstanding any provisions relating to certain tax matters, if the Agency shall provide to the Trustee an opinion of nationally recognized bond counsel that any specified action required under the provisions of the Indenture relating to certain tax matters is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest with respect to the Bonds, the Trustee and the Agency may conclusively rely on such opinion in complying with the requirements of the related provisions of the Indenture, and, notwithstanding Article VIII of the Indenture, the covenants under the Indenture shall be deemed to be modified to that extent.

(d) These provisions shall not apply to any Series of Bonds which the Agency shall certify to the Trustee is not intended to comply with the requirements of the Code necessary to make interest on such Series of Bonds excludable from gross income for federal tax purposes.

**Agreements with Other Taxing Agencies.** So long as any Bonds are Outstanding, the Agency shall not enter into any agreement which operates as a waiver of the Agency's right to receive Tax Revenues under the Redevelopment Plan, unless the Agency's obligations under such agreement are made expressly subordinate and junior to the Agency's obligations under the Indenture and the Bonds.

**Amendment of Second Supplement.** The Agency shall not supplement, amend, modify or terminate any of the terms of the Second Supplement, or consent to any such supplement, amendment, modification or termination, without the written consent of the Trustee. The Trustee shall give such written consent only if such amendment or supplement complies with the provisions of Article 5 of the Master Pledge Agreement.

**Appointment of Trustee.** The Bank of New York Trust Company, N.A., a national banking association organized and existing under and by virtue of the laws of the United States, is appointed Trustee by the Agency for the purpose of receiving all moneys required to be deposited with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture. The Agency agrees that it will maintain a Trustee having a corporate trust office in the State, with a combined capital and surplus, or a member of a bank holding company system the lead bank of which shall have a combined capital and surplus, of at least \$50,000,000, and subject to supervision or examination by Federal or State authority, so long as any Bonds are Outstanding. If such bank, national banking association or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then for these purposes the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee is authorized to pay the principal of and interest and redemption premium (if any) on the Bonds when duly presented for payment at maturity, or on redemption prior to maturity, and to cancel all Bonds upon payment thereof. The Trustee shall keep accurate records of all funds and accounts administered by it and of all Bonds paid and discharged.

**Acceptance of Trusts.** The Trustee accepts the trusts imposed upon it by the Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(b) Whenever in the administration of the Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action under the Indenture, the Trustee (unless other evidence is therein specifically prescribed) may, in the absence of bad faith on its part, rely upon a Certificate of the Agency.

(c) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners pursuant to the Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(d) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order bond or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(e) The Trustee, prior to the occurrence of an Event of Default under the Indenture and after the curing or waiving of all such Events of Default that may have occurred, undertakes to perform such

duties and only such duties as are specifically set forth in the Indenture and no covenants of or against the Trustee shall be implied in the Indenture. In case an Event of Default under the Indenture has occurred (which has not been cured or waived), the Trustee may exercise such of the rights and powers vested in it by the Indenture, and shall use the same degree of care and skill in the exercise of such rights and powers as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(f) The Trustee may execute any of the trusts or powers under the Indenture and perform the duties required of it under the Indenture either directly or by or through attorneys or agents, shall not be liable for the acts or omissions of such attorneys or agents appointed with due care, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture. The Trustee may conclusively rely on an opinion of counsel as full and complete authorization and protection for any action taken, suffered or omitted by it under the Indenture.

(g) The Trustee shall not be responsible for any recital therein or in the Bonds, or for any of the supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued under the Indenture or intended to be secured thereby and makes no representation as to the validity or sufficiency of the Bonds or the Indenture. The Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Agency under the Indenture. The Trustee shall not be responsible for the application by the Agency of the proceeds of the Bonds.

(h) The Trustee may become the Owner or pledgee of Bonds secured thereby with the same rights it would have if not the Trustee; may acquire and dispose of other bonds or evidences of indebtedness of the Agency with the same rights it would have if it were not the Trustee; and may act as a depositary for and permit any of its officers or directors to act as a member of, or in the capacity with respect to, any committee formed to protect the rights of Owners of Bonds, whether or not such committee shall represent the Owners of the majority in aggregate principal amount of the Bonds then Outstanding.

(i) The Trustee may rely and shall be protected in acting or refraining from acting, in good faith and without negligence, upon any notice, resolution, opinion, report, direction, request, consent, certificate, order, affidavit, letter, telegram, facsimile or other paper or document believed by it to be genuine and to have been signed or presented by the proper person or persons. Any action taken or omitted to be taken by the Trustee in good faith and without negligence pursuant to the Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at his request unless the ownership of Bond by such person shall be reflected on the Registration Books.

(j) The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(k) The Trustee shall not be required to take notice or to be deemed to have notice of any Event of Default under the Indenture except failure by the Agency to make any of the payments to the Trustee required to be made by the Agency pursuant to the Indenture, unless the Trustee shall be specifically notified in writing of such default by the Agency or by the Owners of at least 25% in aggregate principal amount of the Bonds then Outstanding and all notice or other instruments required by the Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Principal Corporate Trust Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default under the Indenture except as aforesaid.

(l) At any and all reasonable times the Trustee and its duly authorized agents, attorneys, experts, accountants and representatives, shall have the right fully to inspect all books, papers and records of the Agency pertaining to the Bonds, and to make copies of any of such books, papers and records which are not privileged by statute or by law.

(m) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises of the Indenture.

(n) Notwithstanding anything elsewhere in the Indenture with respect to the execution of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Indenture, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as may be deemed desirable for the purpose of establishing the right of the Agency to the execution of any Bonds, the withdrawal of any cash or the taking of any other action by the Trustee.

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

(p) Whether or not expressly provided therein, every provision of the Indenture relating to the conduct or affecting the liability of the Trustee shall be subject to these provisions.

(q) No implied covenants or obligations shall be read into the Indenture against the Trustee.

(r) Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by and action taken or omitted under the Indenture, the Trustee shall consider the effect on the Owners as if there were no Bond Insurance Policy. There is no Bond Insurance Policy for the Series 2005A Bonds.

(s) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

(t) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(u) The Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to the Indenture provided, however, that: (a) subsequent to such facsimile transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

(v) The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

**Notice to Bond Owners of Default.** If an Event of Default under the Indenture occurs with respect to any Bonds of which the Trustee has been given or is deemed to have notice, as provided in the Indenture, then the Trustee shall, in addition to any notice required under the Indenture, within 30 days of the receipt of such notice, give written notice thereof by first class mail to the Owner of each such Bond and to the Bond Insurer, unless such Event of Default shall have been cured before the giving of such notice; provided, however, that unless such Event of Default consists of the failure by the Agency to make any payment when due, the Trustee may elect not to give such notice to the Owners (but shall give

such notice to the Bond Insurer) if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

**Intervention by Trustee.** In any judicial proceeding to which the Agency is a party that, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of Owners of any of the Bonds under the Indenture, the Trustee may intervene on behalf of such Bond Owners, and subject to the Indenture, shall do so if requested in writing by the Owners of at least 25% in aggregate principal amount of such Bonds then Outstanding.

**Removal of Trustee.** The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee and signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and the Bond Insurer or, in the case of breach by the Trustee of its obligations under the Indenture, by the Bond Insurer alone. The Agency may also remove the Trustee at any time, except during the existence of an Event of Default. The Trustee may be removed at any time for any breach of the Trustee's duties set forth therein.

**Resignation by Trustee.** The Trustee and any successor Trustee may at any time give prior written notice of its intention to resign as Trustee under the Indenture, such notice to be given to the Agency and the Bond Insurer by registered or certified mail. Upon receiving such notice of resignation, the Agency shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the Agency shall cause notice thereof to be given by first class mail, postage prepaid, to the Bond Owners at their respective addresses set forth on the Registration Books.

**Appointment of Successor Trustee.** In the event of the removal or resignation of the Trustee pursuant to the Indenture, respectively, with the prior written consent of the Bond Insurer, the Agency shall promptly appoint a successor Trustee. In the event the Agency shall for any reason whatsoever fail to appoint a successor Trustee within 30 days following the delivery to the Trustee of the instrument described in the Indenture or within 30 days following the receipt of notice by the Agency pursuant thereto, the Trustee may, at the expense of the Agency, apply to a court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of the Indenture. Any such successor Trustee appointed by such court shall become the successor Trustee under the Indenture notwithstanding any action by the Agency purporting to appoint a successor Trustee following the expiration of such 30 day period.

**Merger or Consolidation.** Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall meet the requirements set forth in the Indenture, shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretion, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything therein to the contrary notwithstanding.

**Concerning any Successor Trustee.** Every successor Trustee appointed under the Indenture shall execute, acknowledge and deliver to its predecessor and also to the Agency an instrument in writing accepting such appointment under the Indenture and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the Written Request of the Agency, or of the Trustee's successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor under the Indenture; and every predecessor Trustee shall deliver all securities and moneys held by it as the Trustee under the Indenture to its successor. Should any instrument in writing from the Agency be required by any successor Trustee for



more fully and certainly vesting in such successor the estate, rights, powers and duties vested or intended to be vested in the predecessor Trustee, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Agency.

**Appointment of Co-Trustee.** It is the purpose of the Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under the Indenture, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies therein granted to the Trustee or hold title to the properties, in trust, as therein granted, or take any other action that may be desirable or necessary in connection therewith, it may be necessary that the Trustee or the Agency appoint an additional individual or institution as a separate trustee or co trustee. The following provisions are adopted to these ends.

In the event that the Trustee or the Agency appoints an additional individual or institution as a separate trustee or co trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate trustee or co trustee but only to the extent necessary to enable such separate trustee or co trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate trustee or co trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Agency be required by the separate trustee or co trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Agency. In case any separate trustee or co trustee, or a successor to either, shall become incapable of acting, shall resign or shall be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co trustee.

**Limited Liability of Trustee.** No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture. The Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the direction of the Bond Insurer or of the Owners of at least 25% in aggregate principal amount of Bonds Outstanding relating to the time, method and place of conducting any proceeding or remedy available to the Trustee under the Indenture or exercising any power conferred upon the Trustee under the Indenture. The Agency agrees to indemnify and hold harmless the Trustee for any cost, expense, claim, loss or liability incurred by the Trustee, including, without limitation, fees and expenses of its attorneys, not relating to its own negligence or willful misconduct. The obligations of the Agency under this section of the Indenture shall survive the resignation or removal of the Trustee under the Indenture and the defeasance of the Bonds.

**Rights under Master Pledge Agreement and Second Supplement.** The Trustee shall promptly collect all amounts due from the County pursuant to the Second Supplement and shall diligently enforce and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Agency and all of the obligations of the County in and under the Second Supplement. To the extent the Trustee is required to seek the approval of Beneficiaries under the Master Pledge Agreement, the Trustee shall cast all votes assigned to the Bonds in accordance with the decision of a majority in aggregate principal amount of the Bonds then Outstanding.

**Amendment by Consent of Owners.** The Indenture and the rights and obligations of the Agency and of the Owners may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least sixty per cent (60%) in aggregate principal

amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, and the written consent of the Bond Insurer, if any, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the Agency to pay the interest or principal or redemption premium, if any, at the time and place and at the rate and in the currency provided therein of any Bond, without the express written consent of the Owner of such Bond, or (2) permit the creation by the Agency of any mortgage, pledge or lien upon the Tax Revenues superior to or on a parity with the pledge and lien created in the Indenture for the benefit of the Bonds, except as expressly permitted by the Indenture, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify the rights or obligations of the Trustee without its prior written assent thereto.

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

(a) To add to the covenants and agreements of the Agency in the Indenture contained, other covenants and agreements thereafter to be observed, or to surrender any right or power therein reserved to or conferred upon the Agency;

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in regard to questions arising under the Indenture, as the Agency may deem necessary or desirable and not inconsistent with the Indenture, and which shall not adversely affect the interest of the Owners;

(c) To provide for the issuance of any Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of Article IV;

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

(e) If necessary to maintain the exclusion of interest on Tax Exempt Bonds of any Series from gross income for federal income tax purposes;

(f) To the extent necessary to obtain a Bond Insurance Policy, to obtain a rating on the Bonds or in connection with satisfying all or a portion of the Reserve Account Requirement by crediting a letter of credit or Bond Insurance Policy to the Reserve Account; or

(g) For any other purpose that does not materially adversely affect the interests of the Owners.

**Disqualified Bonds.** Bonds owned or held by or for the account of the Agency or the County shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds in the Indenture provided for, and shall not be entitled to consent to, or take any other action in the Indenture provided for. Upon request of the Trustee, the Agency and the County shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this section and the Trustee may conclusively rely on such certificate.

**Endorsement or Replacement of Bonds After Amendment.** After the effective date of any action taken as thereinabove provided, the Agency may determine that the Bonds may bear a notation, by

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

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

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

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

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

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

(c) If default shall be made by the Agency in the observance of any of the agreements, conditions or covenants on its part in the Indenture or in the Bonds contained, and such default shall have continued for a period of 60 days after the Agency shall have been given notice in writing of such default by the Trustee; provided, however, that such default shall not constitute an Event of Default under the Indenture if the Agency shall commence to cure such default within said 60 day period and thereafter diligently and in good faith proceed to cure such default within a reasonable period of time; or

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

then, and in each and every such case during the continuance of such event of default, the Trustee may, and upon the written request of the Owners of not less than twenty five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding, shall, by notice in writing to the Agency, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding; provided, however, that any such declaration shall be subject to the prior written consent of the Bond Insurer, if any.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments

of interest (if any) upon all the Bonds, with interest at the rate of ten per cent (10%) per annum on such overdue installments of principal and interest, and the fees and expenses of the Trustee, including attorneys fees, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least twenty five per cent (25%) in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences; provided, however, that no such rescission or annulment shall occur without the prior written consent of the Bond Insurer, if any. No such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

**Application of Funds Upon Acceleration.** All money in the funds and accounts provided for in the Indenture upon the date of the declaration of acceleration by the Trustee as provided therein, and all Tax Revenues thereafter received by the Agency under the Indenture, shall be transmitted to the Trustee and shall be applied by the Trustee in the following order:

*First*, to the payment of the fees, costs and expenses of the Trustee, if any, incurred in and about the performance of its powers and duties under the Indenture, including reasonable compensation to its agents, attorneys and counsel;

*Second*, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on the overdue interest and principal at the rate of ten per cent (10%) per annum, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal, ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

**Other Remedies of Owners.** Any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the Agency and any of the members, officers and employees of the Agency, and to compel the Agency or any such members, officers or employees to perform and carry out their duties under the Law and their agreements with the Owners as provided in the Indenture;

(b) By suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Owners; or

(c) Upon the happening of an event of default (as defined in the Indenture), by a suit in equity to require the Agency and its members, officers and employees to account as the trustee of an express trust.

**Non Waiver.** Nothing in this article or in any other provision of the Indenture, or in the Bonds, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as therein provided, out of the Tax Revenues pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture.

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

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

**Actions by Trustee as Attorney-in-Fact.** Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners, and the Trustee is appointed (and the successive respective Owners of the Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney in fact; provided, however, the Trustee shall have no duty or obligation to enforce any right or remedy unless it has been indemnified by the Owners from any liability or expense including without limitation fees and expenses of its attorneys.

**Remedies Not Exclusive.** No remedy therein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or thereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

**Owners' Direction of Proceedings.** Except as provided in that section of the Indenture relating to a Bond Insurance Policy, if any, anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, with the written consent of the Bond Insurer, if any, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

**Limitation on Owners' Right to Sue.** No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Law or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers thereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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

**Bond Insurer's Direction of Proceedings.** There is no Bond Insurance Policy or Bond Insurer for the Series 2005A Bonds and the following provisions would only apply in the event that a future Series of Bonds issued under the Indenture had a Bond Insurer. Notwithstanding any other provision of the Indenture, so long as a Bond Insurance Policy is in effect with respect to any Series of Bonds, upon the occurrence and continuance of an Event of Default under the Indenture, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture, including, without limitation: (i) the right to accelerate the principal of the Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

Notwithstanding anything in the Indenture to the contrary: (i) if the Bond Insurer has failed to make any payments under the Bond Insurance Policy, and such failure remains unremedied, all rights accruing to the Bond Insurer under the Indenture with respect to the giving of instructions, approvals or consents shall cease to be in force and effect until such time as such failure to make such payments has been remedied, and (ii) the Trustee undertakes no responsibility for delivering any notices to the Bond Insurer except as expressly provided therein and no act or omission of the Trustee shall affect or impair in any manner the enforceability of the Bond Insurance Policy.

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

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

Any Outstanding Bonds shall prior to the maturity date thereof be deemed to have been paid within the meaning and with the effect expressed above if (1) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Federal Securities (including any Federal Securities issued or held in book entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the interest due and to become due on such Bonds on and prior to the maturity date thereof, and the principal of such Bonds (the sufficiency of such amounts to be appropriately verified by an Independent Certified Public Accountant or other qualified firm), (2) the Agency shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the

Owners of such Bonds that the deposit required by (1) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity date upon which money is to be available for the payment of the principal of such Bonds and (3) there shall have been delivered to the Trustee an opinion of nationally recognized bond counsel to the effect that, assuming compliance by the Agency, the Trustee or their agent with the requirements set forth in the Indenture, and assuming the sufficiency of the deposits (including anticipated investment earnings thereon, if any) to pay principal, interest and redemption premiums, if any, on the Bonds, no further action by or on the part of the Agency will be required under the Indenture for the defeasance of the Bonds.

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

**Unclaimed Moneys.** Anything in the Indenture to the contrary notwithstanding to the extent permitted by law and subject to the escheat laws of the State, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two (2) years after the date when such Bonds have become due and payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the said date when such Bonds or interest thereon become due and payable, shall be repaid by the Trustee to the Agency, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Agency for the payment of such Bonds; provided, however, that before being required to make any such payment to the Agency, the Trustee shall, at the expense of the Agency, cause to be mailed to the registered Owners of such Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the Agency.

**Liability of Agency Limited to Tax Revenues.** Notwithstanding anything in the Indenture contained, the Agency shall not be required to advance any money derived from any source of income other than the Tax Revenues for the payment of the interest on or the principal of the Bonds or for the performance of any covenants therein contained, other than the tax covenants contained in the Indenture. The Agency may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose. The Agency's obligation to pay the Rebate Requirement to the United States of America pursuant to the Indenture, shall be considered the general obligation of the Agency and shall be payable from any available funds of the Agency.

The Bonds are limited obligations of the Agency and are payable, as to interest thereon and principal thereof, exclusively from the Tax Revenues, and the Agency is not obligated to pay them except from the Tax Revenues. All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the Tax Revenues, and the Tax Revenues constitute a trust fund for the security and payment of the interest on and the principal of the Bonds. The Bonds are not a debt of the County of San Diego, the State of California or any of its political subdivisions, and neither said County, said State nor any of its political subdivisions is liable therefor, 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 within the

meaning of any constitutional or statutory limitation or restriction, and neither the members of the Agency nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

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

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

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

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

Except as otherwise therein expressly provided, the amount of Bonds transferable by delivery held by any person executing such request, declaration or other instrument or writing as a Owner, and the numbers thereof, and the date of his holding such Bonds, may be proved by a certificate, which need not be acknowledged or verified, satisfactory to the Trustee, executed by a trust company, bank or other depository wherever situated, showing that at the date therein mentioned such person had on deposit with such depository the Bonds described in such certificate. Continued ownership after the date of deposit stated in such certificate may be proved by the presentation of such certificate if the certificate contains a statement by the depository that the Bonds therein referred to will not be surrendered without the surrender of the certificate to the depository, except with the consent of the Trustee. The Trustee may nevertheless in its discretion require further or other proof in cases where it deems the same desirable. The ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books provided for in the Indenture.

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

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

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



**Destruction of Canceled Bonds.** Whenever in the Indenture provision is made for return to the Agency of any Bonds which have been canceled pursuant to the provisions of the Indenture, the Trustee shall destroy such Bonds and furnish to the Agency a certificate of such destruction.

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

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

**Notice to Bond Insurer.** Whenever any notice, authorization, request or demand is required or permitted to be given to any party pursuant to the Indenture, such notice, authorization, request or demand shall also be given in writing to the Bond Insurer, if any, by registered or certified mail at the address specified by such Bond Insurer. The Trustee shall notify the Bond Insurer of any known failure of the Agency to provide to the Trustee relevant notices, certificates, reports or other documents under the Indenture. Notwithstanding any other provision of the Indenture, the Trustee shall notify the Bond Insurer immediately if at any time there are insufficient moneys to make any payments of principal or interest as required under the Indenture and immediately upon the Trustee having actual knowledge of the occurrence of any Event of Default or any event, which with the passage of time could become an Event of Default. The Agency and the Trustee agree to provide the Bond Insurer with any additional information concerning the Bonds as the Bond Insurer may reasonably request.

**Continuing Disclosure.** The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed by the Agency in connection with the issuance of the Series 2005A Bonds (the "Continuing Disclosure Agreement"). Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default under the Indenture; provided, however, that the Trustee at the written direction of any underwriter or the Owners of at least 25% aggregate principal amount of Series 2005A Bonds, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Owner or beneficial owner of the Series 2005A Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

**Funds and Accounts.** Any fund or account required by the Indenture to be established and maintained by the Agency or the Trustee may be established and maintained in the accounting records of the Agency or the Trustee either as a fund or an account, and may, for the purposes of such records, any

audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with sound accounting practices and with due regard for the protection of the security of the Bonds and the rights of the Owners.

**Partial Invalidity.** If any one or more of the agreements or covenants or portions thereof provided in the Indenture to be performed on the part of the Agency (or of the Trustee) should be contrary to law, then such agreement or agreements, such covenant or covenants, or such portions thereof, shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity of the Indenture or of the Bonds; but the Owners shall retain all the rights and benefits accorded to them under the Law or any other applicable provisions of law. The Agency declares that it would have adopted the Indenture and each and every other section, paragraph, subdivision, sentence, clause and phrase of the Indenture and would have authorized the issuance of the Bonds pursuant to the Indenture irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of the Indenture or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

**Business Days.** When any action is provided for therein to be done on a day named or within a specified time period, and the day or the last day of the period falls on a day other than a day which is not a Saturday, a Sunday, or a day on which banks located in the city where the principal corporate trust office of the Trustee is located are required or authorized to remain closed (a “business day”), such action may be performed on the next ensuing business day with the same effect as though performed on the appointed day or within the specified period.

**Governing Law.** The Indenture shall be governed and construed in accordance with the laws of the State of California.

## APPENDIX E

### SUPPLEMENTAL INFORMATION CONCERNING THE COUNTY OF SAN DIEGO

*This Appendix contains principally economic and demographic information relating to the County of San Diego. Neither the faith and credit nor the taxing power of the County, the State of California or any political subdivision thereof is pledged to the payment of the Series 2005A Bonds. The Series 2005A Bonds are special tax obligations of the Redevelopment Agency payable solely from a portion of the Special Taxes and other amounts pledged under the Indenture, as more fully described in the Official Statement to which this Appendix is appended. The information set forth herein that has been obtained from sources, other than the County is believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.*

*This Appendix may make “forward-looking statements” by using forward-looking words such as “may,” “will,” “should,” “expects,” “believes,” “anticipates,” “estimates,” or others. Forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby will under any circumstances create any implication that there has been no change in the affairs of the County or in any other information contained herein since the date of the Official Statement.*

### INTRODUCTION

The County of San Diego (the “County”) is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the geographic size of the State of Connecticut. The County’s Fiscal Year 2005-06 proposed General Fund budget is approximately \$2.913 billion.

The County was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors (the “Board”) elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. The Chief Administrative Officer appoints the Chief Financial Officer and the Auditor & Controller. Elected officials include the Assessor/Recorder/County Clerk, District Attorney, Sheriff and the Treasurer-Tax Collector.

Many of the County’s functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County’s ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

The County is the delivery system for federal, State and local programs. The County supports a wide range of services to its residents, including, regional services such as medical examiner, jails, elections and public health; health, welfare and human services such as mental health, senior citizen and child welfare services; basic local services such as planning, parks, libraries and Sheriff’s patrol to the

unincorporated area, and law enforcement by contract and libraries by city's request to incorporated cities; and infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County.

## ECONOMIC AND DEMOGRAPHIC INFORMATION

*Data contained under this caption is intended to portray economic, demographic, and business trends within the County. While not constituting direct revenue sources as such, these trends help explain changes in revenue sources such as property taxes, sales taxes, and transient occupancy taxes, which could be affected by changes in economic conditions. All the information presented in the following tables and other specific data references is the latest information available from the respective data sources.*

### Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population as of January 2004 was estimated to be approximately 3,017,200, making it the third largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 2003 population increased 1.78% from 2002.

**TABLE 1  
POPULATION ESTIMATES  
Calendar Years 1995 through 2004**

<u>Year</u>	<u>San Diego County</u>	<u>Percent Change</u>	<u>State of California</u>	<u>Percent Change</u>	<u>United States<sup>(2)</sup></u>	<u>Percent Change</u>
1995	2,613	—	31,617	—	262,803	—
1996	2,621	0.31%	31,837	0.70%	265,229	0.96%
1997	2,653	1.23	32,207	1.16	267,784	0.92
1998	2,703	1.88	32,657	1.40	270,248	0.90
1999	2,751	1.78	33,140	1.48	272,691	0.90
2000	2,813	2.25	33,873	2.21	282,192	3.48
2001	2,868	1.95	34,431	1.65	285,102	1.03
2002	2,924	1.95	35,049	1.79	287,941	0.99
2003	2,976	1.78	35,612	1.61	290,789	1.04
2004	3,017	1.38	36,144	1.49	293,655	0.99

Sources: State of California Department of Finance; U.S. Bureau of the Census

<sup>(1)</sup> As of January 1 of the year shown.

<sup>(2)</sup> As of July 1 of the year shown.

## Employment Summary

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,493,200 in 2004. The number of employed workers in the labor force averaged approximately 1,422,500. The following table sets forth information regarding the size of the civilian labor force, employment and unemployment rates for the County, the State and the United States for the years 2000 through 2004.

**TABLE 2**  
**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT\***  
**ANNUAL AVERAGES 2000-2004**  
**By Place of Residence**  
**(In Thousands)**

	2000	2001	2002	2003	2004
County of San Diego					
Labor Force	1,391.1	1,417.7	1,458.0	1,482.2	1,493.2
Employment	1,349.4	1,371.8	1,395.6	1,419.1	1,422.5
Unemployment Rate	3.0%	3.2%	4.3%	4.3%	4.7%
State of California					
Labor Force	16,869.7	17,150.1	17,326.9	17,414.0	17,552.3
Employment	16,034.1	16,217.5	16,165.1	16,223.5	16,459.9
Unemployment Rate	5.0%	5.4%	6.7%	6.8%	6.2%
United States					
Labor Force	142,583.0	143,734.0	144,863.0	146,510.0	147,701.0
Employment	136,891.0	136,933.0	136,485.0	137,736	139,252.0
Unemployment Rate	4.0%	4.7%	5.8%	6.0%	5.5%

Sources: County and State Data — California Employment Development Department; National Data — U.S. Department of Labor, Bureau of Labor Statistics.

\* Data not seasonally adjusted; March 2004 Benchmark.

Table 3 provides the California Employment Development Department's estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major industry in the County from calendar years 2000 through 2004. The table below reflects industry data as classified under the North American Industry Classification System (NAICS). During calendar year 2004, employment in the County increased by 18,500 new jobs in all non-farm industries over the prior year.

**TABLE 3**  
**SAN DIEGO COUNTY**  
**NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT**  
**ANNUAL AVERAGES**  
**2000-2004**  
**(In Thousands)**

Employment Sector	2000	2001	2002	2003	2004
Mining	0.3	0.3	0.3	0.3	0.4
Construction	69.7	75.1	76.4	80.2	87.4
Manufacturing	122.6	119.0	112.3	105.3	104.2
Wholesale and Retail Trade	172.9	177.1	179.3	182.4	186.2
Transportation, Warehousing and Utilities	29.8	32.0	29.3	27.3	28.4
Services					
Information	39.2	38.8	37.7	36.9	36.4
Financial Activities	71.2	72.0	75.0	79.9	81.6
Professional and Business Services	195.2	198.2	201.7	201.2	205.1
Educational and Health Services	115.3	116.0	119.7	121.8	121.3
Leisure and Hospitality	129.0	131.4	133.8	140.7	145.3
Other Services	42.2	44.9	45.6	46.8	47.7
Government	<u>206.6</u>	<u>213.8</u>	<u>219.7</u>	<u>217.3</u>	<u>214.7</u>
Total, All Non- Farm Industries	<u>1,193.8</u>	<u>1,218.4</u>	<u>1,230.7</u>	<u>1,240.1</u>	<u>1,258.6</u>

Source: California Employment Development Department.

## Taxable Sales

Consumer spending for 2003 resulted in approximately \$40,863,978 in taxable sales in the County. Table 4 provides annual sales information by type of outlet for calendar years 2000 through the third quarter of 2004.

**TABLE 4**  
**COUNTY OF SAN DIEGO**  
**TAXABLE TRANSACTIONS**  
**2000 THROUGH THIRD QUARTER, 2004**  
**(IN THOUSANDS)**

Type of Business	2000	2001	2002	2003	2004 <sup>(1)</sup>
Apparel Stores	\$ 1,182,173	\$ 1,274,552	\$ 1,374,858	\$ 1,466,233	\$ 1,137,113
General Merchandise	4,307,562	4,445,352	4,557,457	4,832,286	3,571,346
Specialty Stores	3,663,924	3,718,292	3,803,803	4,144,293	3,248,360
Food Stores	1,557,244	1,595,933	1,650,104	1,685,203	1,271,729
Home Furnishings/ Appliances	1,237,271	1,314,860	1,353,158	1,458,403	1,121,501
Eating and Drinking Establishments	3,211,306	3,366,463	3,505,859	3,757,136	3,068,067
Building Materials and Group	2,104,100	2,343,008	2,510,931	2,757,706	2,555,641
Automotive	6,955,856	7,426,582	7,862,366	8,563,690	7,002,974
All Other Retail Stores	733,653	778,296	803,063	855,601	712,411
Business and Personal Services	1,954,589	1,957,109	1,977,606	2,040,077	1,607,080
All Other Outlets	9,337,740	9,478,886	9,196,342	9,303,350	7,294,047
<b>TOTAL ALL OUTLETS</b>	<b>\$36,245,418</b>	<b>\$37,699,333</b>	<b>\$38,595,547</b>	<b>\$40,863,978</b>	<b>\$32,590,269</b>

Source: California State Board of Equalization, Taxable Sales in California.

<sup>(1)</sup> Through Third Quarter, 2004.

## Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract a high level of visitor and convention business each year. Contributing to the growth of visitor business has been the development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego Community Concourse.

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately \$5.5 billion in 2004, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately \$200 million from the prior year. The County hosted 47 conventions and trade shows in 2004, attended by approximately 399,900 delegates, who spent approximately \$362,325,280.

## Military

Military and related defense spending is the second most important component of the San Diego economy, with only manufacturing making a larger contribution to San Diego County's Gross Regional Product. Prior to 1990, San Diego's civilian defense contractors were primarily concentrated in aerospace manufacturing. During the 1990's, the focus of local defense contracting shifted from aerospace

manufacturing to research and development, with shipbuilding and repair remaining an important component. This transformation received additional impetus with the relocation of the Space and Naval Warfare Systems Command (SPAWAR) to San Diego from Virginia, in 1997. SPAWAR is responsible for administering contracts to meet the Navy's continuing need for state-of-the-art command and communications systems.

According to the San Diego Chamber of Commerce, defense related expenditures (active duty payroll and retirement benefits, base expenditures, and defense contracts) in the County during the federal Fiscal Year ended September 30, 2002, totaled approximately \$13.6 billion, up approximately 30% from \$10.5 billion in 2001. With a total active duty military and civilian payroll of \$4.3 billion in the federal Fiscal Year 2002, San Diego continued to lead all counties in the nation in terms of combined military and civilian payrolls. In addition to active duty and civilian payroll, retirement benefits totaled approximately \$1.1 billion. Total defense contracts awarded to County-based businesses totaled \$6.9 billion during the federal Fiscal Year 2002, of which \$5.4 billion were awarded to procurement contracts and another \$1.5 billion to various classified contracts and subcontracts of less than \$1,000 each. According to the San Diego Chamber of Commerce estimate of June 1, 2002, active duty military personnel in the County totaled 104,734 and the defense related civilian employment totaled 23,515.

### Effective Buying Income

Table 5 shows the per capita Effective Buying Income (EBI) for the County, the State, and the United States for calendar years 2000 through 2004.

**TABLE 5  
EFFECTIVE BUYING INCOME**

<u>Year and Area</u>	<u>Total Effective Buying Income (In Thousands)</u>	<u>Median Household Effective Buying Income</u>
<u>2000</u>		
San Diego County	\$ 49,907,828	\$39,213
California	590,376,663	39,492
United States	4,877,786,658	37,233
<u>2001</u>		
San Diego County	54,337,662	44,292
California	652,190,282	44,464
United States	5,230,824,904	39,129
<u>2002</u>		
San Diego County	55,210,119	44,146
California	650,521,407	43,532
United States	5,303,481,498	38,365
<u>2003</u>		
San Diego County	54,831,958	42,315
California	647,879,427	42,484
United States	5,340,682,818	38,035
<u>2004</u>		
San Diego County	57,680,880	43,346
California	674,721,020	42,924
United States	5,466,880,008	38,201

Source: Sales and Marketing Management — Survey of Buying Power.



## Building Permits

Building permit valuation for both residential and non-residential construction in the County in 2004 increased over 2003 levels by more than 6%. Measures limiting new housing remain in effect in areas throughout the County, resulting in a 5.2% increase in residential valuations. Non-residential valuations increased 0.06%.

Annual total building permit valuation and the annual unit total of new residential permits from 2000 through 2004 are shown in the following table.

**TABLE 6  
COUNTY OF SAN DIEGO  
2000-2004  
(IN THOUSANDS)**

	2000	2001	2002	2003	2004 <sup>(1)</sup>
Valuation:					
Residential	\$3,008,203	\$3,169,516	\$3,475,113	\$3,683,808	\$3,875,359
Non-Residential	1,391,497	1,189,910	1,168,866	1,169,396	1,288,135
Total	<u>\$4,399,700</u>	<u>\$4,359,426</u>	<u>\$4,643,979</u>	<u>\$4,853,205</u>	<u>\$5,163,494</u>
New Housing Units:					
Single Family	9,167	9,326	9,749	9,455	9,555
Multiple Family	6,760	6,324	5,989	8,859	7,751
Total	<u>15,927</u>	<u>15,650</u>	<u>15,738</u>	<u>18,314</u>	<u>17,306</u>

Source: Construction Industry Research Board.

<sup>(1)</sup> Preliminary.

## Transportation

Surface, sea and air transportation facilities serve County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas, and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately three miles northwest of the downtown area and sits on 614 acres. The facilities are owned and maintained by the San Diego County Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is California's third most active commercial airport, served by 18 passenger carriers and six cargo carriers. In addition to San Diego International Airport there are two naval air stations and seven general aviation airports located in the County.

Public transit in the metropolitan area is provided by the Metropolitan Transit Development Board. The San Diego Trolley, developed by the Metropolitan Transit Development Board beginning in 1979, has been expanded. A total of 17.6 miles were added to the original 108 miles; construction was completed in 1990.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego, with stops at Solana Beach and Oceanside in the North County.

San Diego's harbor is one of the world's largest natural harbors. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach, and Coronado.

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

**THIS CONTINUING DISCLOSURE AGREEMENT** (this “Disclosure Agreement”), is executed and entered into as of December 1, 2005, by and among the REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO, a redevelopment agency organized and existing under, and by virtue of, the laws of the State of California (the “Agency”), The Bank of New York Trust Company., N.A., a national banking association organized and existing under the laws of the United States of America, in its capacity as trustee (the “Trustee”), and The Bank of New York Trust Company., N.A., a national banking association organized and existing under the laws of the United States of America, in its capacity as Dissemination Agent (the “Dissemination Agent”).

#### WITNESSETH:

**WHEREAS**, pursuant to the Indenture of Trust, dated as of December 1, 2005, by and between the Agency and the Trustee (the “Indenture”), the Agency has issued the Redevelopment Agency of the County of San Diego Gillespie Field Project Revenue Refunding Bonds, Series 2005A (the “Bonds”), in the aggregate principal amount of \$16,000,000; and

**WHEREAS**, this Disclosure Agreement is being executed and delivered by the Agency and The Bank of New York Trust Company, N.A., in its capacity as Trustee and in its capacity as Disclosure Agent, for the benefit of the holders and beneficial owners of the Bonds and in order to assist the underwriters of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

**NOW, THEREFORE**, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

**Section 1. Definitions.** Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

“**Agency**” means the Redevelopment Agency of the County of San Diego.

“**Annual Report**” means any Annual Report provided by the Agency pursuant to, and as described in, Sections 2 and 3 hereof.

“**Annual Report Date**” means the date in each year that is eight months and one day after the end of the Agency’s fiscal year, which date, as of the date of this Disclosure Agreement, is the first calendar day of March.

“**Disclosure Representative**” means the Executive Director of the Agency, or his or her designee, or such other person as the Agency shall designate in writing to the Trustee from time to time.

“**Dissemination Agent**” means The Bank of New York Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Trustee a written acceptance of such designation.

“**Listed Events**” means any of the events listed in Section 4(a) hereof.

**“National Repository”** means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

**“Official Statement”** means the Official Statement, dated December \_\_, 2005, relating to the Bonds.

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

**“Repository”** means each National Repository and each State Repository.

**“Rule”** means 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”** means 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 Agreement, there is no State Repository.

**Section 2. Provision of Annual Reports.** (a) The Agency shall, or, upon furnishing the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2005-06 fiscal year. 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 3 hereof; provided, however, that the audited financial statements of the Agency, if any, 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 4(f) hereof.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Agency shall provide the Annual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall notify the Disclosure Representative of such failure to receive the Annual Report.

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;

(ii) provide any Annual Report received by it to each Repository, as provided herein;  
and

(iii) provided the Dissemination Agent has received the Annual Report pursuant to Section 2(b) hereof, file a report with the Agency and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this

Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

**Section 3. Content of Annual Reports.** The Agency's Annual Report shall contain or incorporate by reference the following:

(a) The Agency's audited financial statements, if any, 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, if any, are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to that used for the Agency's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) An update of the information contained in Table 2 of the Official Statement for the most recently completed fiscal year.

(ii) An update of the information contained in Table 3 of the Official Statement for the most recently completed fiscal year.

(iii) An update of the information contained in Table 4 of the Official Statement based upon the most recently completed fiscal year and using the same assumptions.

(iv) An update of the information contained in Table 6 of the Official Statement for the most recently completed fiscal year.

(v) An update of the information contained in Table 7 of the Official Statement for the most recently completed fiscal year..

(vi) An update of the information contained in Table 8 of the Official Statement for the most recently completed fiscal year.

(vii) The amount of any payments by the Agency during the most recently completed Fiscal Year of the type described in "RISK FACTORS — State Budget Deficit and Its Impact on Housing Tax Revenues" in the Official Statement.

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

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

**Section 4. Reporting of Significant Events.** (a) Pursuant to the provisions of this Section, the Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) The Trustee shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Agency promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f); provided, however, that the Dissemination Agent shall have no liability to Bond owners for any failure to provide such notice. For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of the Trustee. The Trustee shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Agency shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Agency determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Agency shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Agency shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Agency determines that the Listed Event would not be material under applicable Federal securities law, the Agency shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Agency to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

**Section 5. Termination of Reporting Obligation.** The Agency's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 4(f) hereof.

**Section 6. Electronic Filing.** Submission of Annual Reports and notices of Listed Events to DisclosureUSA.org or another "Central Post Office" designated and accepted by the Securities and Exchange Commission shall constitute compliance with the requirement of filing such reports and notices with each Repository hereunder; and the Agency may satisfy its obligations hereunder to file any notice, document or information with a Repository by filing the same with any dissemination agent or conduit, including DisclosureUSA.org or another "Central Post Office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such Repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff or required by the Securities and Exchange Commission. For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the agent or conduit to transmit information to the Repository will be treated for purposes of the Rule as if such information were transmitted directly to the Repository.

**Section 7. Dissemination Agent.** The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days' written notice to the Agency and the Trustee. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Agency in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

**Section 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Agency, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Agency, so long as such amendment does not adversely affect the rights or obligations of the Trustee or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof 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 (i) is approved by holders of sixty percent 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 nationally recognized bond counsel, materially impair the interests of holders.

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 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 statements or information, in order to provide information to investors to enable them to evaluate the ability of the Agency to meet its obligations, including its obligation to pay debt service on the Bonds. 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 4(f) hereof.

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

**Section 10. Default.** In the event of a failure of the Agency or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or 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 or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

**Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article VII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture, and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. The Agency agrees to indemnify and save the Dissemination Agent, the Trustee, their officers, directors, employees and agent, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Agreement or 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. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Agency. The Dissemination Agent shall have no obligation to make any disclosure concerning the Bonds, the Agency or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Trustee under the Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The Dissemination Agency may conclusively rely upon the Annual Report provided to it by the Agency as constituting the Annual Report required of the Agency in accordance with the Disclosure Agreement. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Agency or any other party, apart from the relationship created by the Indenture and this Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds or the Agency except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Agency as to the materiality of any event for purposes of Section 4 hereof. Neither the Trustee nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Agency for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination in the performance of its duties hereunder. The Agency's obligations under this Section shall survive the termination of this Disclosure Agreement.

**Section 12. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Agency, the Trustee, 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.

**Section 13. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**Section 14. Merger.** Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

**IN WITNESS WHEREOF**, the parties hereto have executed this Disclosure Agreement as of the date first above written.

**REDEVELOPMENT AGENCY OF THE COUNTY  
OF SAN DIEGO**

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

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

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

**THE BANK OF NEW YORK TRUST COMPANY,  
N.A., as Dissemination Agent**

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

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer:           Redevelopment Agency of the County of San Diego

Name of Bond Issue:    Redevelopment Agency of the County of San Diego Gillespie Field Project  
Revenue Refunding Bonds, Series 2005A

Date of Issuance:       \_\_\_\_\_

NOTICE IS HEREBY GIVEN that the Redevelopment Agency of the County of San Diego (the “Agency”) has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2005, by and among the Agency and The Bank of New York Trust Company, N.A., in its capacity as Trustee and in its capacity as Dissemination Agent. [The Agency anticipates that the Annual Report will be filed by \_\_\_\_\_.]

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

By: \_\_\_\_\_  
The Bank of New York Trust Company, N.A.,  
as Trustee, on behalf of the Redevelopment  
Agency of the County of San Diego

cc: Redevelopment Agency of  
the County of San Diego

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