

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel, based on existing law and assuming compliance with certain covenants set forth in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), as described herein, interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds may be subject to certain federal taxes imposed on corporations, including the corporate alternative minimum tax on a portion of that interest. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See “CONCLUDING INFORMATION – Tax Matters” herein.



\$21,465,000
The Community Development Agency of the
City of Cloverdale
Tax Allocation Refunding Bonds, Series 2006
(Cloverdale Redevelopment Project)

Dated: Date of Delivery

Due: August 1, as set forth on the inside front cover

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. Attention is hereby directed to certain risk factors more fully described herein. See “RISK FACTORS” herein.

The Community Development Agency of the City of Cloverdale (the “Agency”) is issuing its Tax Allocation Refunding Bonds, Series 2006 (Cloverdale Redevelopment Project) (the “Bonds”). The Bonds will be issued pursuant to an Indenture (the “Indenture”), dated as of August 1, 2006, by and between the Agency and The Bank of New York Trust Company, N.A. (the “Trustee”). The Agency will use the proceeds of the Bonds to: (i) refund and defease all of the currently outstanding The Community Development Agency of the City of Cloverdale, Cloverdale Redevelopment Project, 1995 Tax Allocation Bonds, and certain other obligations, (ii) finance certain redevelopment activities of the Agency, (iii) fund capitalized interest on the Bonds through August 1, 2007, and (iv) pay costs of issuance of the Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchasers of the Bonds may be made in book-entry form only, in denominations of \$5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of and interest on the Bonds will be paid directly to DTC by the Trustee. Principal of the Bonds is payable on the dates set forth on the inside cover page hereof. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2007 (the “Interest Payment Dates”). Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds as described herein.

The Bonds are payable from and secured by the Tax Revenues (as defined herein) and certain funds and accounts held under the Indenture. The Bonds rank on a parity with certain prior loans from the California Department of Commerce and the California Infrastructure and Economic Development Bank. See “SECURITY FOR THE BONDS” herein.

The Agency will sell the Bonds initially to the Cloverdale Improvement Authority (the “Authority”), which will immediately sell the Bonds to the Underwriter named below.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

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

The Bonds are special obligations of the Agency and as such are not a debt of the City of Cloverdale (the “City”) nor the State of California (the “State”) or any of its political subdivisions (other than the Agency), and neither the City, the State, nor any of its political subdivisions (other than the Agency) is liable for the payment thereof. The Bonds are special obligations of the Agency payable exclusively from the Tax Revenues, and amounts held in certain funds and accounts created pursuant to the Indenture. The Agency is not obligated to pay the principal of and interest on the Bonds except from Tax Revenues, and the amounts held in certain funds and accounts held under the Indenture. In no event will the Bonds be payable out of any funds or properties other than those of the Agency pledged therefor. Neither the members of the Agency nor any persons executing the Bonds are liable personally on the Bonds.

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Certain legal matters will also be passed on for the Agency by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, as Disclosure Counsel. Certain legal matters will be passed on for the Agency and the Authority by Meyers Nave Riback Silver & Wilson, Santa Rosa, California, as Agency and Authority Counsel. It is anticipated that the Bonds will be available for delivery on or about August 24, 2006.



\$21,465,000
The Community Development Agency of the
City of Cloverdale
Tax Allocation Refunding Bonds, Series 2006
(Cloverdale Redevelopment Project)

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number (Base 189167)
2008	\$150,000	4.000%	3.620%	AA7
2009	200,000	4.000	3.650	AB5
2010	250,000	4.000	3.680	AC3
2011	300,000	4.000	3.720	AD1
2012	350,000	4.000	3.760	AE9
2013	400,000	4.250	3.850	AF6
2014	460,000	4.250	3.920	AG4
2015	500,000	4.250	4.000	AH2
2016	520,000	4.000	4.090	AJ8
2017	540,000	4.000	4.170	AK5
2018	565,000	4.100	4.250	AL3
2019	590,000	4.125	4.320	AM1
2020	615,000	4.200	4.390	AN9
2021	645,000	4.250	4.460	AP4
2022	670,000	4.300	4.520	AQ2
2023	700,000	4.375	4.550	AR0
2024	735,000	4.375	4.580	AS8
2025	765,000	4.400	4.600	AT6
2026	800,000	4.400	4.610	AU3

\$4,665,000 5.000% Term Bonds due August 1, 2031; Yield 4.620% –CUSIP Number 189167 AV1^c
\$7,045,000 5.000% Term Bonds due August 1, 2036; Yield 4.660% –CUSIP Number 189167 AW9^c

^c Priced to par call on August 1, 2016.

**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
CITY OF CLOVERDALE**

CITY COUNCIL/AGENCY MEMBERS

Robert Jehn – Mayor/Chair
Gus Wolter – Vice Mayor/Vice Chair
Jassalee Raymond – Council Member/Member
Mary Ann Brigham – Council Member/Member
Gail Pardini-Plass – Council Member/Member

CITY/AGENCY STAFF

Vincent L. Long, III, *City Manager /Agency Executive Director*
Michele Winterbottom, *City Clerk /Agency Secretary*
Barry Whitley, *Finance Director/Agency Treasurer*

SPECIAL SERVICES

City Attorney and Agency Counsel

Meyers Nave Riback Silver & Wilson
Santa Rosa, California

Bond and Disclosure Counsel

Richards, Watson & Gershon, A Professional Corporation
Los Angeles, California

Financial Advisor

Urban Futures, Inc.
Orange, California

Continuing Disclosure/Dissemination Agent

Urban Futures, Inc.
Orange, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

Trustee

The Bank of New York Trust Company, N.A.
San Francisco, California

No dealer, broker, salesperson or other person has been authorized by the Agency or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Agency or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from the Agency and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Underwriter. This Official Statement has been deemed final, as of its date, by the Agency for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The information and expressions of opinions herein are subject to change without notice and neither delivery of the 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 Authority or the Agency since the date hereof. All summaries contained herein of the Indenture or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All statements made herein are made as of the date of this document by the Agency except statistical information or other statements where some other date is indicated in the text.

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

The Bonds are exempt from registration with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended. The Bonds have not been registered or qualified under the securities laws of any state. The Bonds will not be listed on any stock or securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of the Official Statement or approved the Bonds for sale.

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

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," or other similar words and include, but are not limited to, statements under the caption "TAX INCREMENT REVENUES" herein. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the Agency has agreed to provide certain on-going financial and other data for a limited period of time (see "INTRODUCTORY STATEMENT – Continuing Disclosure"), the Agency does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations or events, conditions or circumstances on which such statements are based change.



LEGEND

- EXISTING CITY LIMITS
- PROJECT AREA BOUNDARY

SCALE: 1" = 1500'

MAP REVISED	
DATE	RESOLUTION/ORDINANCE



CITY OF CLOVERDALE

REDEVELOPMENT AGENCY
PROJECT AREA

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
The Bonds	1
The City and the Agency	1
The Project Area	2
Tax Allocation Financing	2
Security for the Bonds	2
Reserve Account	3
Municipal Bond Insurance	3
The Bonds are Special Obligations	3
Continuing Disclosure	3
Further Information	4
PLAN OF FINANCE	4
The Refunding Plan	4
Improvement and Housing Projects	4
ESTIMATED SOURCES AND USES OF FUNDS	5
THE BONDS	5
General	5
Redemption of the Bonds	6
Redemption Procedures	6
Transfer and Exchange	7
Mutilated, Destroyed, Stolen or Lost Bonds	8
Book-Entry Only System	8
Debt Service Schedule	9
SECURITY FOR THE BONDS	9
Allocation of Taxes	9
Pledge of Tax Revenues	11
Prior Loans	11
Pass-Through Agreements	11
Reserve Account	12
Issuance of Additional Bonds	13
FINANCIAL GUARANTY INSURANCE POLICY	13
Payment Pursuant to Financial Guaranty Insurance Policy	13
Ambac Assurance Corporation	15
Available Information	15
Incorporation of Certain Documents by Reference	15
Agency and Management	16
Agency Powers	16
Financial Information	17
Regulatory Issues	17
THE PROJECT AREA	17
General	17
Recent Development	17
TAX INCREMENT REVENUES	18
Redevelopment Plan Limitations on Tax Revenues	18
Historical Tax Increment Revenues	18
Secured Taxpayers	18
Teeter Plan	20
Assessment Appeals	20
Projected Taxable Valuations	20
Projected Tax Revenues	21
Debt Service Coverage	21

Filing of Statement of Indebtedness	22
Section 33676 Payments	22
PROPERTY TAXATION IN CALIFORNIA	23
Constitutional Amendments Affecting Tax Revenues	23
Implementing Legislation	23
Constitutional Challenges to Property Tax System	24
Property Tax Collection Procedures	24
Supplemental Assessments	25
Tax Collection Fees	25
Unitary Property Tax	25
Business Inventory and Replacement Revenue	26
Proposition 87	26
Future Initiatives	26
RISK FACTORS	26
Bonds Are Limited Obligations and Not General Obligations	27
Reduction of Tax Revenues	27
Development Risks	28
Seismic Risk	28
Levy and Collection	28
State Budget	28
Property Assessment Appeals	29
Hazardous Substances	30
Bankruptcy and Foreclosure	30
Enforceability of Remedies	30
Loss of Tax Exemption	31
Assumptions and Projections	31
CONCLUDING INFORMATION	31
Underwriting	31
Legal Opinion	32
Tax Matters	32
No Litigation	33
Ratings	34
Verification of Mathematical Computations	34
Professional Fees	34
Miscellaneous	34
APPENDIX A - FORM OF BOND COUNSEL OPINION	A-1
APPENDIX B - AGENCY AUDITED FINANCIAL STATEMENTS FOR FISCAL	
YEAR ENDED JUNE 30, 2005	B-1
APPENDIX C - SUPPLEMENTAL INFORMATION – CITY OF CLOVERDALE	C-1
APPENDIX D - SUMMARY OF THE INDENTURE	D-1
APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE	E-1
APPENDIX F - BOOK-ENTRY ONLY SYSTEM	F-1
APPENDIX G - SPECIMEN BOND INSURANCE POLICY	G-1

OFFICIAL STATEMENT

\$21,465,000
The Community Development Agency of the City
of Cloverdale
Tax Allocation Refunding Bonds, Series 2006
(Cloverdale Redevelopment Project)

INTRODUCTORY STATEMENT

This Introductory Statement is not a summary of this Official Statement, and is qualified by more complete and detailed information contained in the entire Official Statement. A full review should be made of the entire Official Statement, including the cover page and attached appendices. The offering of Bonds to potential investors is made only by means of the entire Official Statement. Definitions of capitalized terms used herein can be found in "APPENDIX D – SUMMARY OF THE INDENTURE."

The Bonds

This Official Statement, including the cover page, is provided to furnish information in connection with the sale by The Community Development Agency of the City of Cloverdale (the "Agency") of \$21,465,000 aggregate principal amount of its Tax Allocation Refunding Bonds, Series 2006 (Cloverdale Redevelopment Project) (the "Bonds"). The Bonds will be issued under the provisions of the Community Redevelopment Law (Part 1 of Division 24 of the Health and Safety Code of the State of California) (the "Redevelopment Law"). The Bonds will be issued pursuant to an Indenture, dated as of August 1, 2006 (the "Indenture"), by and between the Agency and The Bank of New York Trust Company, N.A., San Francisco, California, as trustee (the "Trustee").

The Agency will use the proceeds of the Bonds to (i) refund and defease all of the \$1,090,000 outstanding principal amount of The Community Development Agency of the City of Cloverdale, Cloverdale Redevelopment Project, 1995 Tax Allocation Bonds (the "1995 Bonds") and all of the outstanding balance of a certain loan to the City of Cloverdale by the California Integrated Waste Management Board (the "CIWMB Loan" and, together with the 1995 Bonds, the "Refunded Obligations"), (ii) finance certain redevelopment activities of the Agency, (iii) fund capitalized interest on the Bonds through August 1, 2007; and (iv) pay costs of issuance of the Bonds.

The Bonds are special obligations of the Agency payable exclusively from Tax Revenues (as defined in the Indenture) and amounts held in certain funds and accounts created pursuant to the Indenture. The Bonds rank on a parity with certain prior loans. See "SECURITY FOR THE BONDS" herein.

The Agency will sell the Bonds to the Cloverdale Improvement Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584 of the California Government Code). The Authority will immediately sell the Bonds to E.J. De La Rosa & Co., Inc. (the "Underwriter").

The City and the Agency

The City of Cloverdale (the "City") encompasses approximately 2.7 square miles, and its population was estimated by the State Department of Finance as of January 1, 2005 at 8,241. The City is located in Sonoma County (the "County"), approximately 85 miles north of the City of San Francisco.

The City was incorporated in 1872 as a general law city. It has a council-manager form of government with the Council Members elected at large for four-year terms and the Mayor elected for a two-year term.

The Agency was activated by City ordinance on May 24, 1983, pursuant to the Redevelopment Law. The Agency is governed by a five-member board which consists of all members of the City Council. See "THE AGENCY" herein.

The Project Area

The Cloverdale Redevelopment Project Area (the "Project Area") was formed by the adoption of the Redevelopment Plan (the "Redevelopment Plan") by Ordinance No. 416.87, adopted by the City Council on July 21, 1987. The Project Area encompasses about 210 acres. See "THE PROJECT AREA."

Tax Allocation Financing

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a project area. The taxable valuation of a project area last equalized prior to adoption of the redevelopment plan, or base roll, is established and, except for any period during which the taxable valuation drops below the base year level, the taxing agencies within the project area thereafter receive the taxes produced by the levy of the then current tax rate upon the base roll. Taxes collected upon any increase in taxable valuation over the base roll (except such portion generated by rates levied to pay voter-approved bonded indebtedness after December 31, 1988 for the acquisition or improvement of real property) are allocated to a redevelopment agency and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes and must look specifically to the allocation of taxes produced as above indicated.

Any future decrease in the assessed valuation of taxable property in the Project Area or in the applicable tax rates relating thereto will reduce the tax revenues otherwise allocable to the Agency from the Project Area and correspondingly may have an adverse impact on the ability of the Agency to pay the principal of and interest on the Bonds.

Security for the Bonds

The Agency has pledged "Tax Revenues" for the repayment of the Bonds. Tax Revenues consist of, for each Bond 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 Redevelopment Law in connection with the Project Area (excluding (i) amounts, if any, received by the Agency pursuant to Section 16111 of the Government Code, (ii) amounts payable to certain taxing agencies under existing pass-through agreements entered into in accordance with Section 33401 of the Redevelopment Law, and (iii) amounts, if any, payable to taxing agencies pursuant to Section 33607.5 of the Redevelopment Law, except to the extent that such payments are subordinated pursuant to Subsection (e) of such Section 33607.5). Tax Revenues include amounts deposited by the Agency in the Housing Fund pursuant to Section 33334.2 or Section 33334.6 of the Redevelopment Law, as provided in the Redevelopment Plan, but only to the extent such amounts are used to pay principal or interest or other financing charges with respect to bonds or other obligations issued to increase, improve or preserve the supply of low and moderate income housing within or of benefit to the Project Area.

Except for the Tax Revenues and the amounts held in certain funds and accounts created pursuant to the Indenture, no funds or properties of the Agency shall be pledged to, or otherwise be available for, the payment of principal of or interest on the Bonds. The Agency has no taxing power.

Reserve Account

In order to further secure the payment of principal of and interest on the Bonds, a Reserve Account of the Debt Service Fund is created and held under the Indenture in an amount equal to the Reserve Account Requirement. With respect to the Bonds, the Reserve Account Requirement means, in respect of any Bond Year as computed by the Agency, the least of (i) 10% of the sum of the original stated principal amounts of all Series of Bonds, (ii) 125% of Average Annual Debt Service or (iii) Maximum Annual Debt Service. Upon the issuance of the Bonds, there will be credited to the Reserve Account a surety bond to be issued by Ambac Assurance Corporation (“Ambac Assurance” or the “Insurer”) guaranteeing payments to be made out of the Reserve Account with respect to the Bonds. See “SECURITY FOR THE BONDS – Reserve Account” herein.

Municipal Bond Insurance

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance simultaneously with the issuance of the Bonds. See “FINANCIAL GUARANTY INSURANCE POLICY” and “APPENDIX G – Specimen Financial Guaranty Insurance Policy.”

The Bonds are Special Obligations

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND AS SUCH ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY) AND NEITHER THE CITY, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY) IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT SHALL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AGENCY SET FORTH IN THE INDENTURE.

Continuing Disclosure

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the Agency has undertaken for the benefit of holders of the Bonds to provide certain financial information and operating data relating to the Agency by not later than March 15 of each year, commencing March 15, 2007 (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events, if deemed by the Agency to be material. The Annual Information will be filed by or on behalf of the Agency with each Nationally Recognized Municipal Securities Information Repository (the “NRMSIRS”) and with the State Information Depository (the “State Depository”), if any. Notices of material events will be filed by or on behalf of the Agency with the NRMSIRS or the Municipal Securities Rulemaking Board (the “MSRB”) and with the State Depository, if any. The nature of the information to be provided in the Annual Information and the notices of material events is set forth under the caption “APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The Agency has never failed to comply in all material respects with any previous continuing disclosure undertakings pursuant to the Rule.

Further Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the Bonds and the Indenture, the Agency, and the City are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Redevelopment Law, the Constitution and the laws of the State, and the proceedings of the Authority, the Agency and the City, are qualified in their entirety by reference to each such document, law or to the Constitution. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture. References herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the Indenture are available for inspection at the office of the Agency.

PLAN OF FINANCE

The proceeds of the Bonds will be applied to (i) refund and defease the Refunded Obligations, (ii) finance certain redevelopment activities of the Agency, (iii) fund capitalized interest on the Bonds through August 1, 2007; and (iv) pay costs of issuance of the Bonds.

The Refunding Plan

With respect to the Project Area, the Agency has previously issued its 1995 Bonds, of which \$1,090,000 currently remain outstanding. A portion of the proceeds from the sale of the Bonds, together with certain other available moneys, will be used to refund the 1995 Bonds. The Agency is also currently obligated to service the CIWMB Loan from tax increment revenues. A portion of the proceeds from the sale of the Bonds will be used to defease that loan.

Concurrently with the issuance of the Bonds, the Agency will enter into an Escrow Deposit and Trust Agreement (the "Escrow Agreement") with The Bank of New York Trust Company, N.A., the successor trustee for the 1995 Bonds, as Escrow Agent, pursuant to which an Escrow Fund is created. Amounts deposited in the Escrow Fund will be invested solely in full faith and credit obligations of the United States. The amounts in the Escrow Fund, together with interest earnings thereon, will be sufficient to pay the principal of, and redemption premium, if any, and interest on the Refunded Obligations as they become due and payable to and including the date of redemption thereof. The sufficiency of such amounts deposited in the Escrow Fund to pay the Refunded Obligations as described above will be verified by Grant Thornton LLP, Minneapolis, Minnesota (the "Verification Agent"). As a result of the deposit and application of funds as provided in the Escrow Agreement, the liens of the Refunded Obligations, assuming the accuracy of the verified computations, will be defeased and all obligations thereunder discharged.

Improvement and Housing Projects

The Agency intends to use a portion of the proceeds of the Bonds to finance ongoing redevelopment activities within the Project Area, including infrastructure improvements, public parking improvements, new curbs, gutters, sidewalks and low and moderate income housing projects. The Agency has not determined which specific projects will be funded, and it may fund the projects described, or other projects, as permitted by the Redevelopment Law.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the Bonds and certain other amounts available in the funds and accounts of the Refunded Notes are summarized as follows:

Sources:

Principal Amount of the Bonds	\$21,465,000.00
Net Original Issue Premium	223,447.55
Transfer from 1995 Bonds Funds and Accounts	90,608.69
Total Sources	\$21,779,056.24

Uses:

Redevelopment Fund	\$13,538,604.46
Housing Fund	5,331,158.10
Escrow Fund ⁽¹⁾	1,246,260.32
Capitalized Interest Account ⁽²⁾	857,776.05
Costs of Issuance ⁽³⁾	805,257.31
Total Uses	\$21,779,056.24

⁽¹⁾ Consists of \$1,120,306 to be invested for the defeasance of the 1995 Bonds, \$125,954 to be invested and \$0.32 to be held in cash for the defeasance of the CIWMB Loan.

⁽²⁾ To fund capitalized interest through August 1, 2007.

⁽³⁾ Costs of Issuance include Underwriter's discount, fees and expenses of the Financial Advisor, Bond and Disclosure Counsel, Trustee, Escrow Agent and Verification Agent, bond insurance premium, surety bond premium and printing expenses and other costs related to the issuance of the Bonds.

THE BONDS

General

The Bonds will be issued in the form of fully registered bonds without coupons and in the denomination of \$5,000 or any integral multiple thereof. The Bonds will be dated the date of their delivery and will bear interest at the rates per annum and will mature, subject to the redemption provisions set forth below, on the dates and in the principal amounts, all as set forth on the inside cover page hereof.

Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2007 (the "Interest Payment Dates"). Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless such date of authentication is a day during the period from the sixteenth day of the month next preceding any Interest Payment Date to such Interest Payment Date, inclusive, in which event they shall bear interest from such Interest Payment Date, or unless such date of authentication is prior to February 1, 2007, in which event they shall bear interest from the delivery date of the Bonds, provided, however, that if as of the date of authentication of any Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The principal or redemption price of the Bonds will be payable at the maturity or earlier redemption upon presentation and surrender of the Bonds at the Trust Office of the Trustee, and interest on the Bonds will be payable by check, mailed on the Interest Payment Date to each Owner of the Bonds as of the close of business on the fifteenth day of the month immediately preceding an Interest Payment

Date, or by wire transfer to an account in the United States at the request of the Owner of at least \$1,000,000 in aggregate principal amount of outstanding Bonds filed with the Trustee no later than the fifteenth day of the month next preceding such Interest Payment Date.

Redemption of the Bonds

Optional Redemption. The Bonds maturing on or after August 1, 2017 are subject to redemption as a whole or in part, by such maturities as the Agency shall designate prior to their respective maturities at the option of the Agency on any date on or after August 1, 2016, from funds derived by the Agency from any source, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing August 1, 2031, are also subject to redemption prior to their stated maturity, in part by lot, from Sinking Account Installments deposited in the Sinking Account, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Redemption Date (August 1)	Principal Amount
2027	\$ 840,000
2028	885,000
2029	930,000
2030	980,000
2031(maturity)	1,030,000

The Bonds maturing August 1, 2036, are also subject to redemption prior to their stated maturity, in part by lot, from Sinking Account Installments deposited in the Sinking Account, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Redemption Date (August 1)	Principal Amount
2032	\$1,270,000
2033	1,340,000
2034	1,405,000
2035	1,475,000
2036(maturity)	1,555,000

Whenever less than all the Outstanding Bonds maturing on any one date are called for redemption at any one time, the Trustee shall select the Bonds to be redeemed, from the Outstanding Bonds maturing on such date not previously selected for redemption, by lot; provided, however, that if less than all the Outstanding Term Bonds of any maturity are called for redemption at any one time, the Agency shall specify in writing to the Trustee the reduction in any Sinking Account Installment payments required to be made with respect to such Bonds (in an amount equal to the amount of Outstanding Term Bonds to be redeemed) which, to the extent practicable, results in approximately equal Annual Debt Service on the Bonds Outstanding following such redemption.

Redemption Procedures

Notice of Redemption. Notice of redemption shall be mailed by first class mail by the Trustee not less than 30 days prior to the redemption date to (i) the respective Owners of Bonds designated for

redemption at their addresses appearing on the bond registration books of the Trustee, (ii) one or more Information Services designated in writing to the Trustee by the Agency and (iii) the Securities Depositories. Each notice of redemption shall state the date of such notice, the Bonds to be redeemed, the series designation of such Bonds, the date of issue of such Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of such Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice shall 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 shall not affect the sufficiency of the proceedings for redemption.

Purchase in Lieu of Redemption. In lieu of redemption of any Term Bond, amounts on deposit in the Special Fund or in the Sinking Account therein may also be used and withdrawn by the Trustee at any time, upon the Written 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 Account) as the Agency may in its discretion determine, but not in excess of the principal amount thereof plus accrued interest to the purchase date; provided, however, that no Bonds shall be so purchased by the Trustee with a settlement date more than 60 days prior to the redemption date. The principal amount of any Term Bonds so purchased by the Trustee in any twelve-month period ending 30 days prior to any Principal Payment Date in any year shall be credited towards and shall reduce the principal amount of such Term Bonds required to be redeemed on such Principal Payment Date in such year.

Right to Rescind. The Agency will have the right to rescind any optional redemption by written notice of rescission. Any notice of optional redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Trustee is required to mail notice of rescission of such redemption in the same manner as the original notice of redemption was sent.

Effect of Redemption. From and after the date fixed for redemption, if notice of such redemption shall have been duly given and funds available for the payment of such redemption price of the Bonds so called for redemption shall have been duly provided, no interest shall accrue on such Bonds from and after the redemption date specified in such notice.

Transfer and Exchange

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the Indenture by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in substantially the form set forth in the Indenture, duly executed. Whenever any Bond or Bonds shall be surrendered for transfer, the Agency shall execute and the Trustee shall authenticate and

deliver a new Bond or Bonds of like series, tenor, maturity and Total Maturity Amount. The Trustee shall require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Agency shall not be required to register the transfer of or exchange any Bond during the 15 days preceding any date established by the Trustee for selection of Bonds for redemption or any Bonds which have matured or been selected for redemption.

Mutilated, Destroyed, Stolen or Lost Bonds

In case any Bond shall become mutilated or shall be believed by the Agency to have been destroyed, stolen or lost, upon proof of ownership satisfactory to the Trustee, and upon the surrender of such mutilated Bond at the Trust Office, or upon the receipt of evidence satisfactory to the Trustee of such destruction, theft or loss, and upon receipt of satisfactory indemnity and payment of expenses, the Agency shall execute (manually or by facsimile) and the Trustee shall authenticate and deliver at the Trust Office a new Bond or Bonds of the same series and maturity and for the same Total Maturity Amount, of like tenor and date, with such notations as the Agency shall determine, in exchange and substitution for and upon cancellation of the mutilated Bond, or in lieu of and in substitution for the Bond so destroyed, stolen or lost.

Any such replacement Bonds shall be entitled to equal and proportionate benefits with all other Bonds and both the original and replacement Bond shall be treated as one and the same.

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

Book-Entry Only System

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond will be issued for the Bonds of each maturity and each series, in the initial aggregate principal amount of such maturity of such series, and will be deposited with DTC or its authorized agent. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" for further information regarding DTC.

Debt Service Schedule

Scheduled annual debt service payments for the Bonds are set forth in the following table.

Fiscal Year Ending June 30	Principal	Interest	Total
2007	--	\$ 434,757.53	\$ 434,757.53
2008	--	996,896.28	996,896.28
2009	\$ 150,000	993,896.28	1,143,896.28
2010	200,000	986,896.28	1,186,896.28
2011	250,000	977,896.28	1,227,896.28
2012	300,000	966,896.28	1,266,896.28
2013	350,000	953,896.28	1,303,896.28
2014	400,000	938,396.28	1,338,396.28
2015	460,000	920,121.28	1,380,121.28
2016	500,000	899,721.28	1,399,721.28
2017	520,000	878,696.28	1,398,696.28
2018	540,000	857,496.28	1,397,496.28
2019	565,000	835,113.78	1,400,113.78
2020	590,000	811,362.52	1,401,362.52
2021	615,000	786,278.76	1,401,278.76
2022	645,000	759,657.51	1,404,657.51
2023	670,000	731,546.26	1,401,546.26
2024	700,000	701,828.77	1,401,828.77
2025	735,000	670,438.14	1,405,438.14
2026	765,000	637,530.00	1,402,530.00
2027	800,000	603,100.00	1,403,100.00
2028	840,000	564,500.00	1,404,500.00
2029	885,000	521,375.00	1,406,375.00
2030	930,000	476,000.00	1,406,000.00
2031	980,000	428,250.00	1,408,250.00
2032	1,030,000	378,000.00	1,408,000.00
2033	1,270,000	320,500.00	1,590,500.00
2034	1,340,000	255,250.00	1,595,250.00
2035	1,405,000	186,625.00	1,591,625.00
2036	1,475,000	114,625.00	1,589,625.00
2037	1,555,000	38,875.00	1,593,875.00
	<u>\$21,465,000</u>	<u>\$20,626,422.35</u>	<u>\$42,091,422.35</u>

SECURITY FOR THE BONDS

Allocation of Taxes

General. As provided in the Redevelopment Plan of the Agency, and pursuant to Article 6 of Chapter 6 of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State of California, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State of California and any city, county, city and county, district or other public corporation (herein collectively referred to as "taxing agencies") for fiscal years beginning after the effective date of the Project Area are divided as follows:

(1) *To Taxing Agencies:* That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of said taxing agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance approving the Project Area (or ordinances

approving amendments to the Redevelopment Plan adding to the Project Area), shall be allocated to, and when collected shall be paid into the funds of the respective taxing agencies as taxes by or for said taxing agencies on all other property are paid; and

(2) *To the Agency:* Except for the taxes which are attributable to a tax rate levy by a taxing agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989, which shall be allocated to and when collected shall be paid to such taxing agency, that portion of said levied taxes each year in excess of the amounts provided in (1) above, shall be allocated to, and when collected, shall be paid into a special fund of the Agency to pay the principal of and interest on bonds, 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, redevelopment activities within the Project Area. Unless and until the total assessed valuation of the taxable property in the Project Area exceeds the total assessed value of the taxable property in the Project Area as shown by the last equalized assessment roll referred to in paragraph (1) above, all of the taxes levied and collected upon the taxable property in the Project Area shall be paid into the funds of the respective taxing agencies. When said bonds, loans, advances, and indebtedness, if any, and interest thereon, have been paid, all moneys thereafter received from taxes upon the taxable property in the Project Area shall be paid into the funds of the respective taxing agencies as taxes on all other property are paid.

Within certain limits, the Agency is authorized to make pledges of the portion of taxes mentioned in paragraph (2) above (sometimes referred to herein as “tax increment revenues”) to repay specific advances, loans and indebtedness as appropriate in carrying out the Redevelopment Plan.

Pass-Through Agreements and Statutory Pass-Through Requirements. Prior to the enactment of Assembly Bill 1290 (“AB 1290”), enacted by the State Legislature in 1994, under the Redevelopment Law, a redevelopment agency could enter into an agreement to pay tax increment revenues to any taxing agency that has territory located within a redevelopment project area in an amount which in the agency’s determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provide for a pass-through of tax increment revenue directed to the affected taxing agency, and, therefore, are commonly referred to as pass-through agreements or tax sharing agreements. See “Pass-Through Agreements”, below.

AB 1290 prohibited redevelopment agencies from entering into future pass-through agreements, but did not affect existing pass-through agreements. In place of such agreements, AB 1290 provided a statutory formula for the sharing of tax increment revenues, which formula applies to all project areas created after enactment of AB 1290 and to territory that is added to existing project areas. Since the Cloverdale Redevelopment Project was created in 1987, and the Redevelopment Plan has not been amended to add territory, the Agency is not currently subject to any statutory pass-through requirement.

Housing Set-Aside. In accordance with the Redevelopment Law, not less than twenty percent (20%) of all taxes which are allocated to the Agency (the “Housing Set-Aside”) shall be deposited in a low and moderate income housing fund to be used by the Agency for purposes of improving, increasing and preserving the City’s supply of housing for persons and families of low or moderate income, including the payment of indebtedness issued or incurred for such purposes (and therefore including a portion of the Bonds). Any tax increment revenues payable under pre-AB 1290 pass-through agreements are not taken from the Housing Set-Aside but instead are taken from the remaining 80% of tax increment revenues of the Agency.

Pledge of Tax Revenues

The Agency has pledged a portion of its tax increment revenues to the payment of the Bonds. This portion (the "Tax Revenues") is defined in the Indenture as follows:

"The term "Tax Revenues" means, for each Bond 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 (i) amounts, if any, received by the Agency pursuant to Section 16111 of the Government Code and (ii) Pass-Through Payments. "Tax Revenues" include amounts deposited by the Agency in the Housing Fund pursuant to Section 33334.2 or Section 33334.6 of the Law, as provided in the Redevelopment Plan, but only to the extent such amounts are used to pay principal or interest or other financing charges with respect to bonds or other obligations issued to increase, improve or preserve the supply of low and moderate income housing within or of benefit to the Project Area."

The pledge thus excludes State personal property tax subventions, if any, and pass-through payments. The Housing Set-Aside portion of tax increment revenues is **not** excluded, to the extent used to pay debt service on bonds issued for housing purposes (thus including debt service on a portion of the Bonds).

Prior Loans

The Agency has previously incurred two loan obligations which rank on a parity with the Bonds.

REDIP Loan. On April 20, 1993, the Agency entered into a loan contract with the State Department of Commerce for a loan of up to \$245,000 at an annual interest rate of 2.75% to finance a sewer expansion project. The actual loan was for \$162,402 and the current balance is \$53,113. The loan matures on December 1, 2010.

CIEDB Loan. In January 2002, the Agency entered into a Tax Allocation Loan Agreement with the California Infrastructure and Economic Development Bank for a loan of \$3,658,600 at an annual interest rate of 3.53%, to fund a major roadway improvement project. Principal is payable annually on June 1 and interest is payable semiannually on June 1 and December 1. The current balance is \$3,181,482. The Note matures on June 1, 2035.

Pass-Through Agreements

The Agency has pass-through agreements with the following taxing entities: the County of Sonoma, the Sonoma County Library, the Cloverdale Unified School District, and the Sonoma County Junior College District.

County of Sonoma. The Agency makes two types of pass through payments to the County. First, the County receives approximately 29.8% of tax increment revenues from the 2% escalation in assessed value. Second, the County receives approximately 80% of 31.0% of the tax increment revenues from growth in assessed value above the 2% escalation.

Sonoma County Library. The County Library receives approximately 2.9% of gross tax increment revenues from the Agency.

Cloverdale USD. The School District receives approximately 18.3% of tax increment revenues from the 2% escalation in assessed value.

Sonoma County JCD. The Junior College District receives approximately 5.9% of tax increment revenues from the 2% escalation in assessed value.

For a description of the 2% escalation allocated to the foregoing taxing agencies, see “TAX INCREMENT REVENUES – Section 33676 Payments.”

Reserve Account

The Indenture requires the establishment of a Reserve Account within the Debt Service Fund created pursuant to the Indenture in an amount equal to \$1,595,250 as of the date of delivery of the Bonds. The Indenture authorizes the Obligor to obtain a Surety Bond in place of fully funding the Reserve Account. Accordingly, application has been made to Ambac Assurance for the issuance of a Surety Bond for the purpose of funding the Reserve Account. The Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Bonds. The Surety Bond provides that upon the later of (i) one day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Obligor is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Obligor is subordinate to the Obligor’s obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Reserve Account, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the “Additional Funding Instrument”), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Reserve Account shall be replenished in the following priority: (i) principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available Tax Revenues on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument shall be deposited from next available Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

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

Issuance of Additional Bonds

Under the Indenture, the Agency may issue additional bonds (“Additional Bonds”) payable from the Tax Revenues and secured by a lien and charge upon the Tax Revenues equal to and on a parity with the lien and charge securing the Bonds, but only subject to the satisfaction of conditions specified in the Indenture, including the requirement that Tax Revenues (excluding any unsubordinated payments to taxing agencies pursuant to the Redevelopment Law) based upon the assessed valuation of taxable property in the Project Area as shown on the most recently equalized assessment roll preceding the date of the Agency’s adoption of the Supplemental Indenture providing for the issuance of such Additional Bonds plus, at the option of the Agency, the Additional Allowance shall be in an amount equal to at least 125% of Maximum Annual Debt Service following the issuance of such Additional Bonds, as evidenced by a Consultant’s Report.

For purposes of calculating Tax Revenues, a tax rate of \$1.00 per \$100 of assessed valuation shall be assumed and Tax Revenues shall be reduced by an amount equal to the product of then current property tax appeals of the ten largest property taxpayers times the average percentage of successful appeals of the ten largest property taxpayers for the preceding five years. In addition, in the event that the County discontinues the “Teeter Plan” method of allocating tax collections (see “TAX INCREMENT REVENUES – Teeter Plan” herein), Tax Revenues shall be adjusted based on average tax delinquencies for the preceding five years.

The term “Additional Allowance” means, as of the date of calculation, the amount of Tax Revenues which, as shown in a Consultant’s Report, are estimated to be receivable by the Agency in the next Fiscal Year as a result of increases in the assessed valuation of taxable property in the Project Area due to either (i) construction which has been completed but has not yet been reflected on the tax roll, or (ii) transfer of ownership or any other interest in real property, which is not then reflected on the tax roll.

The debt service on Escrow Bonds (i.e., Bonds the proceeds of which are deposited in a new money escrow), provided certain conditions are met, is not included in applying the foregoing Additional Bonds test.

For further description of the conditions for issuance of Additional Bonds, see “APPENDIX D-SUMMARY OF THE INDENTURE” herein.

FINANCIAL GUARANTY INSURANCE POLICY

The following information has been furnished by the Insurer for use in this Official Statement. This information has not been independently confirmed or verified by the Agency or the Underwriter. No representation is made by the Agency or the Underwriter as to the accuracy or adequacy of this information subsequent to the date of this Official Statement, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix G for a specimen of the Insurer’s Financial Guaranty Insurance Policy.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by

reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Bond Insurance Policy shall be fully discharged.

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

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

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

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

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

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

Ambac Assurance Corporation

Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$9,417,000,000** (unaudited) and statutory capital of **\$5,879,000,000** (unaudited) as of **March 31, 2006**. Statutory capital consists of Ambac Assurance’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under this heading “Financial Guaranty Insurance Policy”.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

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

Incorporation of Certain Documents by Reference

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

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company’s Current Report on Form 8-K dated and filed on April 26, 2006; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006.

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

Agency and Management

The Agency was activated by City ordinance on May 24, 1983, under the provisions of the Redevelopment Law. The current members of the City Council and their term expirations are as follows:

<u>Board Member</u>	<u>Term Expires in December</u>
Robert Jehn, Mayor	2006
Gus Wolter, Vice Mayor	2008
Jassalee Raymond, Council Member	2008
Mary Ann Brigham, Council Member	2006
Gail Pardini-Plass, Council Member	2006

Agency Powers

The Agency is charged with the responsibility of eliminating blight within its redevelopment project areas through the process of redevelopment.

All powers of the Agency are vested in its five members, who are elected members of the City Council. The Agency exercises all of the governmental functions authorized under the Redevelopment Law in carrying out projects and has sufficiently broad authority to acquire, develop, administer and sell or lease property, including the right to issue bonds, notes and other evidences of indebtedness and expend 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 of California may be carried out pursuant to the Redevelopment Law. Section 33020 of the Redevelopment Law defines redevelopment to include 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 area 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.

Financial Information

Included as APPENDIX B to this Official Statement are the audited financial statements of the Agency for the Fiscal Year ended June 30, 2005. The auditor has not performed any post-audit review of the financial condition or operations of the Agency.

Regulatory Issues

The Agency is in material compliance with the provisions of the California Environmental Quality Act, constituting Division 13 (commencing with Section 21000) of the California Public Resources Code, with respect to the Project Area.

THE PROJECT AREA

General

The Project Area was formed by the adoption of the Redevelopment Plan on July 21, 1987, by the City Council through Ordinance No. 416-87. The Project Area consists of a total of approximately 210 acres.

Recent Development

Following is a brief description of recent resale activity and developments currently under construction, but not yet on the assessed valuation rolls. The additional value used in the projections of Tax Revenues are described in the table below for Fiscal Years 2006-07 and 2007-08. The value of resale activity within the Project Area that was completed prior to January 1, 2006 will be added to the property tax roll for Fiscal Year 2006-07. The value of new development within the Project Area that is completed prior to January 1, 2007 will be added to the property tax roll for Fiscal Year 2007-08.

	FY 2007-08
Resale Activity from January 1, 2006-June 30, 2006:	
Total Sales Prices:	\$13,782,000
Total Current AV:	(7,000,206)
Difference to be added to 07-08 Tax Roll:	<u>\$ 6,781,794</u>
New Developments currently under construction	
<u>Single Family Residential:</u>	
Gardens at Thyme Square (24 condos at an average price of \$200,000)	\$ 4,800,000
Caledonian Court (8 single family detached units at an average price of \$350,000)	2,800,000
Soiland subdivision (5 single family detached units at an average price of \$350,000)	1,750,000
Oak Meadows Apartments (15 Apartments at an average construction cost per unit of \$60,000)	900,000
Cloverleaf Estates (18 single family attached units at an average price of \$275,000)	4,950,000
<u>Commercial:</u>	
Super 8 Motel	1,682,826
Penny Faire remodel	357,000
Depot Hotel remodel	400,000
Furber Shopping Center expansion	695,000
Total	<u><u>\$25,116,620</u></u>

TAX INCREMENT REVENUES

Redevelopment Plan Limitations on Tax Revenues

Sections 33333.2 and 33333.4 of the Redevelopment Law require each redevelopment agency to either include in each redevelopment plan or to adopt by ordinance a limitation on the amount of taxes that may be divided and allocated to the redevelopment agency with respect to the related redevelopment project area. Pursuant to Section 33333.2, taxes may not be allocated to a redevelopment agency beyond this limitation except by amendment of the redevelopment plan. The Redevelopment Plan for the Project Area contains such tax increment limitations. In addition, under the provisions of AB 1290, a redevelopment agency may not pay indebtedness or receive property taxes pursuant to Section 33670 of the Redevelopment Law after ten years from the termination of the effectiveness of a redevelopment plan (which is now limited to 40 years after the adoption of such redevelopment plan). As amended, the Redevelopment Plan provides that total outstanding principal of bonds payable solely from tax increment may not at any time exceed \$45,000,000, and that the maximum amount of tax increment allocated to the Agency each year may not exceed 1.75 times maximum annual debt service. The expiration date of the Redevelopment Plan is August 20, 2027; the last date to incur indebtedness is August 20, 2007; and the final date to receive Incremental Tax Revenues is August 20, 2037.

Historical Tax Increment Revenues

The Agency's source of Tax Revenues pledged to pay debt service on the Bonds is the Tax Increment Revenues from the Project Area as reported by the County Auditor-Controller's office and the Agency's Finance Department. The following table provides a summary of the historical taxable valuation and resulting tax increment revenues in the Project Area. This summary of historical assessed valuations and tax increment receipts is not intended to aid in the prediction of future Tax Revenues.

TABLE NO. 1
PROJECT AREA
HISTORICAL ASSESSED VALUATIONS AND TAX INCREMENT REVENUES

Fiscal Year	Assessed Value	Base Year Value	Incremental Value	Gross Increment Revenue	% Growth in Assessed Value	% Growth in Increment Revenues
2001	\$134,592,524	\$27,457,556	\$107,134,968	\$1,071,350	17.69%	23.28%
2002	147,188,066	27,457,556	119,730,510	1,197,305	9.36	11.76
2003	168,422,463	27,457,556	140,964,907	1,409,649	14.43	17.74
2004	187,247,397	27,457,556	159,789,841	1,597,898	11.18	13.35
2005	236,408,264	27,457,556	208,950,708	2,089,507	26.25	30.77
2006	289,018,535	27,457,556	261,560,979	2,615,610	22.25	25.18

Source: Urban Futures, Inc. and County of Sonoma

Secured Taxpayers

Set forth in the table below are the ten largest property taxpayers for the Project Area based on the tax roll for Fiscal Year 2005-06.

TABLE NO. 2
PROJECT AREA
TEN LARGEST PROPERTY TAXPAYERS (SECURED)
(Fiscal Year 2005-06 Tax Roll)

Taxpayer	2005-06 Assessed Valuation	Percent of Total A.V.⁽¹⁾
1. Realty Income Corp.	\$4,896,000	1.73%
2. Furber Development	3,855,682	1.37
3. Sandholm LLC	3,848,614	1.36
4. Peay Vineyards LLC	3,310,994	1.17
5. Gardens at Thyme Square LLC	2,824,380	1.00
6. Patel, Sudhaben & Champakbhai	2,666,724	0.94
7. Norgrove Properties LLC	1,945,958	0.69
8. Jopson, Josie & William	1,619,780	0.57
9. Cloverdale Garden Apartments	1,417,730	0.50
10. Castle 2000 Trust	1,176,075	0.42
	<u>\$2,561,937</u>	<u>9.76%</u>

⁽¹⁾ 2005-06 Secured Assessed Valuation is \$282,439,115.
Source: Urban Futures, Inc.

Set forth in the table below is a summary of the land uses in the Project Area based on the secured property tax roll for Fiscal Year 2005-06.

TABLE NO. 3
PROJECT AREA
LAND USES (SECURED)
(Fiscal Year 2005-06 Secured Tax Roll)

Land Use	Number of parcels	Secured Assessed Valuation	Percent of Secured A.V.
1. Residential	855	\$222,235,636	78.68%
2. Commercial	78	26,673,420	9.44
3. Miscellaneous	30	11,431,220	4.05
4. Vacant	82	10,241,660	3.63
5. Manufacturing	11	6,534,878	2.31
6. Industrial	5	2,429,92	0.86
7. Professional	7	1,714,136	0.61
8. Recreational	6	1,038,445	0.37
9. Institutional	6	139,728	0.05
10. Government	15	-	0.00
	<u>1095</u>	<u>\$282,439,115</u>	<u>100.00%</u>

Source: Urban Futures, Inc.

Teeter Plan

California counties can elect to implement the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (commonly referred to as the “Teeter Plan”), as provided for in Section 4701 et. seq. of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying secured property taxes receives from its county the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest as collected that would have been due the local agency. Sonoma County participates in the Teeter Plan. Thus, the Agency’s receipt of tax revenues is not dependent upon actual collection of ad valorem taxes by the County.

Assessment Appeals

Historically only a small percentage of requested appeals have been granted. The financial advisor has determined that there are no currently pending assessment appeals for the top ten taxpayers in the Project Area.

Projected Taxable Valuations

Projections of the Project Area taxable valuations are set forth in the following table:

Table No. 4
THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
CLOVERDALE REDEVELOPMENT PROJECT AREA
TAXABLE VALUATIONS

<u>Fiscal Year</u>	<u>Taxable Valuation ⁽¹⁾</u>	<u>Incremental Valuation ⁽²⁾</u>	<u>Incremental Tax Revenues ⁽³⁾</u>
2006-07 ⁽⁴⁾	\$315,306,449	\$287,848,893	\$2,878,489
2007-08	346,729,198	319,271,642	3,192,716
2008-09	353,663,782	326,206,226	3,262,062
2009-10	360,737,058	333,279,502	3,332,795
2010-11	367,951,799	340,494,243	3,404,942

⁽¹⁾ Taxable valuation based on preliminary 2006-07 assessed valuation, increased each year thereafter at an annual rate of two percent (2%) each year. In addition contains \$25,116,620 of additional value in Fiscal Year 2007-08, has been included, from resale activity and new development under construction.

⁽²⁾ Incremental valuation consists of the assessed valuation less the base year valuation of \$27,457,556.

⁽³⁾ Tax Revenues based on the incremental valuation times a tax rate of 1.00%.

⁽⁴⁾ 2006-2007 figures based on preliminary taxable valuation figures provided by Sonoma County. Sonoma County will certify the taxable valuation for 2006-07 on August 20, 2006.

Source: Urban Futures, Inc.

Projected Tax Revenues

A summary of the projected Tax Revenues is set forth in the table below.

Table No. 5
**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
 CLOVERDALE REDEVELOPMENT PROJECT AREA
 TAX REVENUES**

<u>Fiscal Year</u>	<u>Tax Revenues</u>	<u>Less: Pass-Throughs</u>	<u>Pledged Tax Revenues⁽¹⁾</u>
2006-07 ⁽²⁾	\$2,878,489	\$835,079	\$2,043,410
2007-08	3,192,716	924,524	2,268,193
2008-09	3,262,062	946,190	2,315,872
2009-10	3,332,795	968,290	2,364,505
2010-11	3,404,942	990,831	2,414,111

(1) Pledged Tax Revenues available to the Agency for debt service on the Bonds.

(2) 2006-07 figures based on preliminary taxable valuation figures provided by Sonoma County. Sonoma County will certify the taxable valuation for 2006-07 on August 20, 2006.

Source: Urban Futures, Inc.

Debt Service Coverage

Receipt of projected Tax Revenues in the amounts and at the time projected by the Agency's financial advisor depends on the realization of certain assumptions relating the Tax Revenues. See "— Projected Tax Revenues" above. Based upon the projected Tax Revenues, the Agency expects sufficient funds should be available to the Agency to pay principal of and interest on the Bonds. Although the Agency believes that the assumptions upon which the projected Tax Revenues are based are reasonable, the Agency provides no assurance that the projected Tax Revenues will be realized. To the extent that the assumptions are not actually realized, the Agency's ability to timely pay principal and interest on the Bonds may be adversely affected. The following table shows estimated annual debt service coverage on the Bonds for the Bond Years ending August 1, 2007 through August 1, 2011:

TABLE NO. 6
 PROJECT AREA
 ESTIMATED DEBT SERVICE COVERAGE

<u>Bond Year</u>	<u>Pledged Tax Revenues⁽¹⁾</u>	<u>Annual Debt Service</u>	<u>Debt Service Coverage</u>
2006-07 ⁽²⁾	\$2,043,410	\$ 666,909	3.06x
2007-08	2,268,193	1,255,839	1.81x
2008-09	2,315,872	1,554,446	1.49x
2009-10	2,364,505	1,556,641	1.52x
2010-11	2,414,111	1,627,521	1.48x

(1) Pledged Tax Revenues available to the Agency for debt service on the Bonds.

(2) 2006-07 figures based on preliminary taxable valuation figures provided by Sonoma County. Sonoma County will certify the taxable valuation for 2006-07 on August 20, 2006.

Filing of Statement of Indebtedness

Section 33675 of the Redevelopment Law requires that the Agency file, not later than the first day of December of each year with the county auditor, a statement of indebtedness certified by the chief financial officer of the Agency for each redevelopment project for which the redevelopment plan provides for the division of taxes pursuant to section 33670 of the Redevelopment Law. The statement of indebtedness is required to contain, among other things, the date on which the bonds were delivered, the principal amount, term, purpose, interest rate and total interest of the bonds, the principal amount and the interest due in the fiscal year in which the statement of indebtedness is filed and the outstanding balance and amount due on the bonds. Similar information must be given for each loan, advance or indebtedness that the Agency has incurred or entered into which is payable from tax increment.

As amended by Assembly Bill 1290 (Statutes of 1993, Chapter 942) ("AB 1290"), section 33675 requires each redevelopment agency to file a reconciliation statement for each redevelopment project for which the redevelopment agency receives tax revenues pursuant to section 33670. The reconciliation statement is to show, among other things, (i) for each loan, advance or indebtedness, for each redevelopment project the total debt service obligations of the redevelopment agency to be paid in the fiscal year for which the statement of indebtedness is filed; (ii) the total debt service remaining to be paid on such indebtedness, and (iii) the available revenues as of the end of that fiscal year. "Available revenues" consist of all Tax Increment Revenues held by the redevelopment agency as cash or cash equivalents and all cash or cash equivalents held by the redevelopment agency that are irrevocably pledged or restricted to payment of a loan, advance or indebtedness that the redevelopment agency has listed on a statement of indebtedness. For purposes of section 33675, amounts held in a redevelopment agency's Low and Moderate Income Housing Fund do not constitute available revenues, and amounts deposited by a redevelopment agency in its Low and Moderate Income Housing Fund constitute indebtedness of the redevelopment agency.

Section 33675(g) has been amended by AB 1290 to provide that payments of Tax Increment Revenues from the county auditor to a redevelopment agency may not exceed the redevelopment agency's aggregate total outstanding debt service obligations minus the available revenues of the redevelopment agency, as shown on the reconciliation statement. Payments to a trustee under a bond resolution or indenture or payments to a public agency in connection with payments by such public agency pursuant to a bond issue shall not be disputed in any action under Section 33675.

The Agency has determined that the amendments to Section 33675 limiting the payment of tax revenues to an amount not greater than the difference between a redevelopment agency's total outstanding debt obligations and total available revenues, as reported on the redevelopment agency's reconciliation statement, will not have an adverse impact on the Agency's ability to meet its debt service obligations.

Section 33676 Payments

Until 1994, Health & Safety Code Section 33676 permitted taxing entities affected by the adoption of a redevelopment project area to adopt resolutions requiring the County to transfer the portion of the tax revenues derived from the annual inflation adjustment to real property from the original base year otherwise payable to the Agency to such taxing entities providing the taxing entity adopted a resolution invoking the provision prior the adoption of a redevelopment plan. For redevelopment plans adopted between 1986 and 1994, school districts and community college districts that were affected taxing agencies were automatically eligible to receive such payments and did not have to adopt a resolution. Such payments are of tax revenues attributable to an increase in the tax rate imposed for the benefit of the affected taxing entity, and tax revenues attributable to the annual inflation adjustment to real property under Article XIII of the State Constitution using the base year of the original plan adoption,

and the base year of any plan amendment which permits the agency to receive tax increment revenues adopted during the time frame of the applicable provisions of Section 33676. The revenues transferred pursuant to Section 33676 comprise an increase in the base year for the taxing entities and are not considered tax increment.

PROPERTY TAXATION IN CALIFORNIA

Constitutional Amendments Affecting Tax Revenues

The Tax Revenues includes a portion of the ad valorem taxes levied on real property within the Project Area. Article XIII A of the California Constitution limits the amounts of ad valorem tax on real property to 1% of "full cash value" as determined by the county assessor. 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 period." Furthermore, all real property valuation may be increased to reflect the inflationary rate, as shown by the consumer price index, not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors.

Article XIII A exempts from the 1% tax limitation any taxes to repay indebtedness approved by the voters prior to July 1, 1978, and any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voters voting on the proposition approving such bonds, and requires a vote of two-thirds of the qualified electorate to impose special taxes, while totally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State legislature to change any State tax law resulting in increased tax revenues.

Article XIII B of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the subsequent two years.

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances or indebtedness incurred for redevelopment activity shall not be deemed the receipt by such agency of proceeds of taxes within the meaning of Article XIII B, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or any appropriation subject to the limitation of, any other public body within the meaning or the purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. Two California appellate court decisions have upheld the constitutionality of Section 33678, and in the one case in which a petition for review was filed in the California Supreme Court, such petition was denied.

Implementing Legislation

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 assessed valuation (based on the traditional practice of using 25% of full cash value as the assessed value for tax

purposes). The legislation further provided that, for Fiscal Year 1978-79 only, the tax levied by each county was to be appropriated among all taxing agencies within the county in proportion to their average share of taxes levied in certain previous years.

Effective as of the 1981-82 Fiscal Year, assessors in California no longer record property values in the tax rolls at the assessed value of 25% of market values. All taxable property value is shown at full market value. In conformity with this change in procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of market value and all general tax rates reflect the \$1 per \$100 of taxable value.

Future assessed valuation growth allowed under Article XIII A (i.e., new construction, change of ownership, and 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The Agency is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other ad valorem property tax above those described above, even with the approval of the affected voters.

Constitutional Challenges to Property Tax System

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

Property Tax Collection Procedures

In California, property that is subject to ad valorem taxes is classified as "secured" or "unsecured." The secured classification includes property on which any property tax levied by a county becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax levied by a county that becomes a lien on secured property has priority over all present and future private liens arising pursuant to State law on the secured property, regardless of the time of the creation of the other liens. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on other property owned by the taxpayer.

Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The payment of delinquent taxes with respect to property on the secured roll may be enforced only through the sale of the property securing the taxes to the State for the amount of taxes that are delinquent. Such property may thereafter be redeemed by payment of the delinquent taxes and penalties. Unsecured personal property taxes may be collected, in the absence of timely payment by the taxpayer, through (1) a civil action against the taxpayer; (2) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on property of the taxpayer; (3) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer; and (4) 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.

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

Supplemental Assessments

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

Collection of taxes based on supplemental assessments will occur throughout the year. Taxes due will be pro-rated according to the amount of time remaining in the tax year, with the exception of tax bills dated June 1 through May 31, which will be calculated on the basis of the remainder of the current fiscal year and the full twelve months of the next fiscal year.

Tax Collection Fees

SB 2557 enacted in 1990 (Statutes of 1990, Chapter 466), authorized county auditors to determine property tax administration costs proportionately attributable to local jurisdictions and to submit invoices to the jurisdictions for such costs. Subsequent legislation, SB 1559 (Chapter 697, Statutes of 1992), specifically includes redevelopment agencies among entities subject to a property tax administration charge. The projections of Tax Revenues take such administrative costs into account.

Unitary Property Tax

AB 454 (Statutes of 1987, Chapter 921) provides a revised method of reporting and allocating property tax revenues generated from most State-assessed unitary properties commencing with Fiscal Year 1988-89. Under AB 454, the State reports to each county auditor-controller only the county-wide unitary taxable value of each utility, without an indication of the distribution of the value among tax rate areas. AB 454 provides two formulas for auditor-controllers to use in order to determine the allocation of unitary property taxes generated by the county-wide unitary value, which are: (i) for revenue generated from the 1% tax rate, each jurisdiction is to receive up to 102% of its prior year unitary property Tax Increment Revenue; however, if county-wide revenues generated from unitary properties are greater than 102% of prior year revenues, each jurisdiction receives a percentage share of the excess unitary revenues equal to the percentage of each jurisdiction's share of secured property taxes; (ii) for revenue generated from the application of the debt service tax rate to county-wide unitary taxable value, each jurisdiction is to receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes.

The provisions of AB 454 apply to all State-assessed property, except railroads and non-unitary properties the valuation of which will continue to be allocated to individual tax rate areas. The provisions of AB 454 do not constitute an elimination or a revision of the method of assessing utilities by the State Board of Equalization. AB 454 allows, generally, valuation growth or decline of State-assessed unitary property to be shared by all jurisdictions within a county.

Business Inventory and Replacement Revenue

Prior to 1979, the State reimbursed cities, counties, special districts and redevelopment agencies that portion of taxes which would have been generated by the exempted portion of business inventory value (50%). In 1979, the California Legislature enacted AB 66 (Statutes of 1979, Chapter 1150), eliminating the assessment and taxation of business inventory property and providing for replacement revenue for local agencies, except redevelopment agencies. In 1980, the California Legislature enacted AB 1994 (Statutes of 1980, Chapter 610), providing partial replacement revenue for the loss of business inventory revenues by redevelopment agencies.

In 1990, the California Legislature amended Section 16112.7 of the California Government Code (Chapter 449, Statutes of 1990) which precludes redevelopment agencies from pledging special subvention revenues toward the payment of debt service for bonded indebtedness incurred after July 31, 1990 (the effective date of the legislation). The 1992-93 State Budget reduced the State's funding for the special subvention. As enacted under AB 222 (Chapter 188, Statutes of 1991), the Budget Act eliminated 1991-92 subvention payments for most redevelopment projects, including the Project Area. Additionally, the 1992-93 State Budget implemented further cuts in funding for the State's special subvention to redevelopment agencies. As a result, these revenues are not included in the projections of Tax Revenues.

Proposition 87

Under prior State law, if a taxing entity increased its tax rate to obtain revenues to repay general obligation bonds approved by two-thirds of the voters, the redevelopment agency with a project area that includes property affected by the tax rate increase would have realized a proportionate increase in tax increment revenues.

Proposition 87, approved by the voters of the State on November 8, 1988, requires that all revenues produced by such a tax rate increase (approved by the voters on or after January 1, 1989) go directly to the taxing entity that increased the tax rate to repay the general obligation bonded indebtedness. As a result, redevelopment agencies no longer receive an increase in tax increment revenues when taxes on property in the project area are increased to repay voter-approved general obligation debt.

Future Initiatives

Each of Article XIII A, Article XIII B and Proposition 87 was adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the Agency or the Agency's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the Authority or the Agency.

RISK FACTORS

PURCHASE OF THE BONDS WILL CONSTITUTE AN INVESTMENT SUBJECT TO CERTAIN RISKS, INCLUDING THE RISK OF NONPAYMENT OF PRINCIPAL AND INTEREST. BEFORE PURCHASING ANY OF THE BONDS, PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER, AMONG OTHER THINGS, THE RISK FACTORS DESCRIBED BELOW.

THE FOLLOWING IS NOT MEANT TO BE AN EXHAUSTIVE LISTING OF ALL RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS. MOREOVER, THE ORDER OF

PRESENTATION OF THE RISK FACTORS DOES NOT NECESSARILY REFLECT THE ORDER OF THEIR IMPORTANCE.

Bonds Are Limited Obligations and Not General Obligations

The Bonds and the interest thereon are limited obligations of the Agency and do not constitute a general obligation of the Agency. No Owner of the Bonds may compel exercise of the taxing power of the State of California or any of its political subdivisions or agencies to pay the principal of, premium, if any, or interest due on the Bonds. See "SECURITY FOR THE BONDS" herein.

Reduction of Tax Revenues

Tax Increment Revenues allocated to the Agency (which constitute the principal source of repayment of the principal of and interest on the Bonds, as discussed herein) are allocated to the Agency each year based on the amount of incremental valuation of taxable property in the Project Area, the current rate or rates at which property in the Project Area is taxed and the percentage of taxes collected in the Project Area. The Agency has no taxing power, nor does the Agency have the power to affect the rate at which property is taxed.

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

First, a reduction of taxable values of property or tax rates in the Project Area or a reduction of the rate of increase in taxable values of property in the Project Area caused by economic or other factors beyond the Agency's control (such as a relocation out of the Project Area by one or more major property owners, successful appeals by property owners for a reduction in a property's assessed value, a reduction of the general inflationary rate, a reduction in transfers of property, construction activity or other events that permit reassessment of property at lower values, or the destruction of property caused by natural or other disasters, including earthquake) could occur, thereby causing a reduction in Tax Increment Revenues.

Second, the California electorate or legislature could adopt limitations with the effect of reducing Tax Revenues payable to the Agency. Such limitation already exists under Article XIII A of the California Constitution, which was adopted pursuant to the initiative process. For a further description of Article XIII A, see "PROPERTY TAXATION IN CALIFORNIA – Constitutional Amendments Affecting Tax Revenues" herein.

Third, a reduction in the tax rate applicable to property in the Project Area by reason of discontinuation of certain override tax levies in excess of the 1% basic levy will reduce Tax Increment Revenues otherwise available to pay debt service. Such override can be expected to decline over time until it reaches the 1% basic levy and may be discontinued at any time, which may cause a reduction in Tax Revenues.

Fourth, in the event the County elects to discontinue the Teeter Plan, delinquencies in the payment of property taxes by the owners of land in the Project Area could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the Bonds. See "TAX INCREMENT REVENUES -- Teeter Plan" herein.

Tax Increment Revenues allocated to the Agency are distributed throughout the year in installments, with the first major installment in December, a second major installment in April of the

succeeding year and a final payment by the end of June in that year. The payments are adjusted to reflect actual collections. Any reduction in tax revenues, whether for any of the foregoing reasons or any other reason, could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the Bonds.

Development Risks

Generally, the Agency's ability to pay debt service on the Bonds will be dependent upon the economic strength of the Project Area. The general economy of the Project Area will be subject, in part, to the development risks generally associated with real estate development projects. Projected development within the Project Area may be subject to unexpected delays, disruptions and changes. For example, real estate development operations may be adversely affected by changes in general economic conditions, fluctuations in the real estate market, fluctuations in interest rates, unexpected increases in development costs and by other factors. Further, real estate development operations within the Project Area could be adversely affected by future governmental policies, including governmental policies to restrict or control development. If projected development in the Project Area is delayed or halted, the economy of the Project Area could be adversely affected, causing a reduction of the Tax Increment Revenues available to pay debt service on the Bonds.

Seismic Risk

The Project Area is located in a seismically active region of northern California with several faults located within, or within a few miles of, the Project Area. In the event of property damage caused by an earthquake, the assessed valuation of affected property could be reduced. Such a reduction of assessed valuations could result in a reduction of the Tax Increment Revenues that secure the Bonds, which in turn could impair the ability of the Agency to make payments of principal of and interest on the Bonds when due.

Levy and Collection

Neither the Agency nor the Authority has an independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Increment Revenues, and accordingly, could have an adverse impact on the ability of the Agency to pay debt service on the Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency's ability to make timely debt service payments. The County currently allocates 100% of the tax increment levy adjusted for tax roll corrections resulting from successful appeals, late assessments or valuation corrections, and any delinquent or impounded property taxes have no impact on the Agency's receipt of Tax Revenues. However, there is no assurance that the County will continue to allocate tax revenues in this manner.

State Budget

The State of California faces significant budget issues for fiscal year 2006-07 and possibly beyond. In connection with its approval of former budgets, the State Legislature enacted legislation that, among other things, reallocated a portion of funds from redevelopment agencies to school districts by shifting each agency's tax increment, net of amounts due to other taxing agencies, to school districts ("ERAF" shifts).

The 2004-05 State Budget included a transfer by redevelopment agencies to the applicable ERAFs of \$250 million in each of Fiscal Years 2004-05 and 2005-06. The Agency's share of the annual \$250 million shift for Fiscal Years 2004-05 was \$122,375 and the share for fiscal year 2005-06 was

\$104,519. The Agency paid its fiscal year 2004-05 payment and its fiscal year 2005-06 payment on a timely basis from tax increment revenues.

The State's budget for Fiscal Year 2006-07 does not require an ERAF transfer of tax increment revenues by redevelopment agencies. Although the State's voters approved a constitutional amendment on the November 2004 ballot (the "Local Government Initiative"), which purports to prohibit any further transfers of non-education local government property taxes for the benefit of the State, the Local Government Initiative does not purport to change existing law with respect to the State's ability to transfer redevelopment agencies' property tax revenues.

The Agency cannot predict whether the State Legislature will enact legislation impacting future Tax Revenues. Given the level of the State's budget deficit problems, it is possible that tax increment available for payment of the Bonds may be reduced in the future by actions of the State Legislature.

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, 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. 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. 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.

Property Assessment Appeals

An assessee of locally-assessed or state-assessed property may contest the taxable value enrolled by the county assessor or by the State Board of Equalization ("SBE"), respectively. The assessee of SBE-assessed property or locally-assessed personal property, the valuation of which is subject to annual reappraisal, actually is contesting the determination of the full cash value of property when filing an assessment appeal.

Because of the limitations to the determination of the full cash value of locally-assessed real property by Article XIII A (described below), however, an assessee of locally assessed real property generally is contesting only the original determination of the base assessment value of the parcel, i.e. the value assigned after a change of ownership or completion of new construction. At the time of reassessment, after a change of ownership or completion of new construction, the assessee may appeal the base assessment value of the property. Under an appeal of a base assessment value, the assessee appeals the actual underlying market value of the sales transaction or the recently completed improvement. A base assessment appeal has significant future revenue impact because a reduced base year assessment will then reduce the compounded value of the property prospectively. Except for the 2 percent inflation factor, the value of the property cannot be increased until a change of ownership occurs or additional improvements are added.

The assessee of locally-assessed real property also may contest the current assessment value (the base assessment value plus the compounded annual inflation factor) when specified conditions have caused the full cash value to drop below the current assessment value. Pursuant to Section 51(b) of the Revenue and Taxation Code, the assessor may place a value on the tax roll lower than the compounded base assessment value, if the full cash value of real property has been reduced by damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in the value. Reductions in value pursuant to Section 51(b), commonly referred to as Proposition 8 appeals, can be achieved either by formal appeal or administratively by assessor staff appraising the property. A reduced

full cash value placed on the tax roll does not change the base assessment value. The future impact of a parcel subject to a Proposition 8 appeal is dependent upon a change in the conditions which caused the drop in value. In fiscal years subsequent to a successful Proposition 8 appeal, the assessor may determine that the value of the property has increased as a result of corrective actions or improved market conditions and enroll a value on the tax roll up to the parcel's compounded base assessment value.

The taxable value of utility property may be contested by utility companies and railroads to the SBE. Generally, the impact of utility appeals is on the State-wide value of a utility determined by the SBE. As a result, the successful appeal of a utility may not affect the taxable value of a project area but could affect a project area's allocation of unitary property taxes.

The actual impact on tax increment is dependent upon the actual revised value of assessments resulting from values determined by the County Assessment Appeals Board or through litigation and the ultimate timing of successful appeals. Because the County Controller adjusts revenues to the Agency to reflect roll corrections from successful appeals, the Agency may bear the burden of appeals. The actual valuation impact to the Project Area from successful assessment appeals will occur on the assessment roll prepared after the actual valuation reduction.

Hazardous Substances

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

Bankruptcy and Foreclosure

On July 30, 1992 the United States court of Appeals for the Ninth Circuit issued an opinion in a bankruptcy case entitled *In re Glasply Marine Industries* holding that ad valorem property taxes levied by a county in the State of Washington after the date that the property owner filed a petition for bankruptcy would not be entitled to priority over the claims of a secured creditor with a prior lien on the property. Similar results were reached by several circuit courts in other circuits. Subsequently, however, section 362(b)(18) of the Bankruptcy Code was enacted, effectively overturning this line of decisions and providing that local governments may rely on statutory property tax liens to secure payment of property taxes even after the filing of a bankruptcy petition.

For further discussion of other factors which may affect the amount of Tax Increment Revenue collected by the Agency, see "THE PROJECT AREA" herein.

Enforceability of Remedies

The remedies available to the Trustee and the registered owners of the Bonds upon an event of default under the Indenture or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be

qualified to the extent that the enforceability of the legal documents with respect to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Loss of Tax Exemption

As discussed under the caption “CONCLUDING INFORMATION - Tax Matters”, in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Agency has covenanted in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion under Section 103 of the Internal Revenue Code of 1986 of interest on the Bonds from the owners thereof for federal income tax purposes. Interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the Agency in violation of the Code. The Bonds are not subject to early redemption merely because an event of taxability has occurred; rather the Bonds will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Indenture.

Assumptions and Projections

Any reduction in Tax Revenues, whether for any of the foregoing reasons or any other reason, could have an adverse effect on the Agency’s ability to make timely payments of principal of, premium, if any, and interest on the Bonds, which are secured by such Tax Revenues. To estimate the total Tax Revenues available to pay debt service on the Bonds, the financial advisor has made certain assumptions with regard to the assessed valuation in the Project Area, future tax rates, the percentage of taxes collected. See “Projected Tax Revenues” for a full discussion of the assumptions underlying the projections set forth herein with respect to Tax Revenues. The Agency believes these assumptions to be reasonable, but to the extent that the assessed valuations, the tax rates, the percentage of taxes collected or the interest rate at which funds are invested are less than the Agency’s assumptions, the total Tax Revenues available will, in all likelihood, be less than those projected herein. See “TAX INCREMENT REVENUES” herein.

CONCLUDING INFORMATION

Underwriting

The Underwriter expects to purchase the Bonds at a purchase price of \$21,087,190.24, representing the aggregate principal amount of the Bonds, plus a net original issue premium of \$223,447.55, less an Underwriter’s discount of \$241,481.25, less \$319,894.81 wired directly to Ambac for the bond insurance premium, and less \$39,881.25 wired directly to Ambac for the surety bond premium. The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside front cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

Legal Opinion

Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel, will render an approving opinion with respect to the Bonds substantially in the form set forth in APPENDIX A hereto.

The legal opinion is only as to legality and are not intended to be nor are they to be interpreted or relied upon as a disclosure document or an express or implied recommendation as to the investment quality of the Bonds.

Tax Matters

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel will express no opinion as to any other federal tax consequences regarding the Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Agency that are intended to assure the foregoing, including that the Bonds are and will remain obligations, the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those representations and certifications.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes. Some of these qualifications and conditions require future or continued compliance after issuance of the obligations for the interest to be and to continue to be excluded from the date of issuance. Noncompliance with these qualifications and conditions by the Agency may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Agency has covenanted to take the actions required of them for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Under the Code, a portion of the interest on the Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. In addition, interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owners of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Any excess of the stated redemption price at maturity of the Bonds over the initial offering price to the public of the Bonds set forth on the inside cover of this Official Statement is "original issue discount." Such original issue discount accruing on a Bond is treated as interest excluded from the gross

income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a Bond should consult his or her own tax advisors with respect to the tax consequences of ownership of bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such bonds under federal individual and corporate alternative minimum taxes.

If the Bonds were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity, that excess constitutes "premium." For federal income tax purposes, that premium is amortized over the period to maturity of the Bonds, based on the yield to maturity of the Bonds, compounded semiannually. No portion of that premium is deductible by the owner of a Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Bond, the owner's tax basis in the Bond is reduced by the amount of premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Bond for an amount equal to or less than the amount paid by the owner for that Bond. A purchaser of a Bond in the initial public offering at the price for that Bond stated on the inside cover of this Official Statement who holds that Bond to maturity will realize no gain or loss upon the retirement of that Bond. Owners of the Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of premium properly accruable in any period with respect to the Bonds and as to other federal tax consequences and the treatment of premium for purposes of state and local taxes on, or based on, income.

Purchasers of the Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should consult their own tax advisors regarding other tax considerations such as the consequences of market discount or premium.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California.

A copy of the proposed form of Bond Counsel's final approving opinion with respect to the Bonds is attached hereto as APPENDIX A.

No Litigation

There is no action, suit or proceeding known to the Agency or the Authority to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the Agency or the Authority taken with respect to any of the foregoing. In the opinion of the Agency and its counsel, there are no lawsuits or claims pending against the Agency which will materially affect the Agency's finances as to impair the ability to pay principal of or interest on the Bonds when due.

Ratings

Standard & Poor's ("S&P") has assigned a rating of "AAA" to the Bonds, conditioned on the issuance by the Insurer of its financial guaranty insurance policy at the time of delivery of the Bonds. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Verification of Mathematical Computations

Execution and delivery of the Bonds will be subject to the delivery by Grant Thornton LLP, of a report of the mathematical accuracy of certain computations, contained in schedules provided to them by the Financial Advisor, relating to (a) the adequacy of the maturing principal amounts of the United States government obligations held under the Escrow Agreement, interest earned thereon and certain other uninvested cash to pay principal of and interest with respect to the Refunded Obligations, and (b) the computations of actuarial yields relied upon by Bond Counsel to support its conclusion that Bonds are not arbitrage bonds within the meaning of Section 148 of the Code.

Professional Fees

In connection with the issuance of the Bonds, fees payable to certain professionals, including Richards, Watson & Gershon, A Professional Corporation, as Bond Counsel and Disclosure Counsel, and Urban Futures, Inc., as Financial Advisor are contingent upon the issuance of the Bonds.

Miscellaneous

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

This Official Statement does not constitute a contract with the purchasers of the Bonds. Any statements made in this Official Statement involving matters of opinion or 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.

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

THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE

/s/ Vincent Long
Executive Director

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

FORM OF BOND COUNSEL OPINION

Upon issuance and delivery of the Bonds, Richards Watson & Gershon, A Professional Corporation, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Closing Date]

The Community Development Agency of the City of Cloverdale
Cloverdale, California 95326

Opinion of Bond Counsel

with reference to

\$21,465,000

Cloverdale Redevelopment Agency of the City of Cloverdale
Tax Allocation Refunding Bonds, Series 2006
(Cloverdale Redevelopment Project)

Members of the Agency:

We have examined (i) a record of proceedings relating to the issuance by The Community Development Agency of the City of Cloverdale (the "Agency") of the above-captioned bonds (the "Bonds"), (ii) the Indenture, dated as of August 1, 2006 (the "Indenture"), by and between the Agency and The Bank of New York Trust Company, N.A., as Trustee, and (iii) supplemental documents furnished to us, certificates and documents from public officials and others, and such other matters of law as we have deemed necessary for the purpose of this opinion. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

The Bonds are issued under and pursuant to Part 1 of Division 24 of the California Health and Safety Code and other laws supplemental thereto and the Indenture. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Indenture.

From such examination, we are of the opinion that under existing law:

1. The Agency has the right and power to enter into the Indenture. The Indenture has been duly and lawfully authorized, executed and delivered by the Agency and, assuming due authorization, execution and delivery by the Trustee, is in full force and effect in accordance with its terms and is valid and binding upon the Agency and enforceable in accordance with its terms, and no other authorization for the Indenture is required. The Indenture creates the valid pledge which it purports to create of the Tax Revenues and certain funds established by the Indenture, including the investments, if any, thereof; subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

2. The Bonds are valid and binding special obligations of the Agency, payable solely from Tax Revenues and certain other funds as provided in the Indenture.

3. Interest on the Bonds is exempt from State of California personal income taxes.

4. Assuming compliance with the covenants described below, interest on the Bonds is excluded from gross income for Federal income tax purposes. The Bonds are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the “Code”) and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. However, we note a portion of the interest on Bonds owned by corporations may be subject to the Federal alternative minimum tax, which is based in part on adjusted current earnings.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The Agency has covenanted to satisfy, or take such actions as may be necessary to cause to be satisfied, each provision of the Code necessary to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. We express no opinion as to any Bond, or the interest thereon, if any change occurs or action is or omitted upon the advice or approval of any counsel other than ourselves.

Except as stated in the foregoing paragraphs numbered 3 and 4 and the paragraph immediately following paragraph 4, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Bonds.

The opinions expressed in the paragraphs numbered 1 and 2 hereof are qualified to the extent that the enforceability of the Indenture and the Bonds may be limited by any applicable bankruptcy, insolvency, debt adjustment, fraudulent conveyance or transfer, moratorium, reorganization or other similar laws 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 public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing law and cover certain matters not directly addressed thereby. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. Furthermore, we have assumed compliance with all agreements and covenants contained in the Indenture. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement for the Bonds, or other offering material, relating to such Bonds and no opinion is expressed herein with respect thereto.

Respectfully submitted,

APPENDIX B

**AGENCY AUDITED FINANCIAL STATEMENTS FOR
FISCAL YEAR ENDED JUNE 30, 2005**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
WITH INDEPENDENT AUDITORS' REPORTS
THEREON

* * *

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

TABLE OF CONTENTS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	13
Reconciliation of the Balance Sheet – Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Statement of Activities	16
Notes to the Financial Statements	17 - 26
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
Redevelopment Fund	27
Low/Moderate Income Housing Fund	28
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Summary of Compliance Findings	30
Summary of Prior Year Compliance Findings	31



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

ROBERT E. BARSANTI, C.P.A. (RETIRED) PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

INDEPENDENT AUDITORS' REPORT

Members of the Board of the
Community Development Agency of the City of Cloverdale
City of Cloverdale, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Community Development Agency (the "Agency") of the City of Cloverdale as of and for the year ended June 30, 2005, a component unit of the City of Cloverdale, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Community Development Agency of the City of Cloverdale as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 10, 2005 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

C. G. Whlenberg LLP

November 10, 2005
Redwood City, California

Management's Discussion and Analysis

CITY OF CLOVERDALE COMMUNITY DEVELOPMENT AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

As a component unit of the City of Cloverdale, the Community Development Agency ("Agency") became active in 1987 to eliminate and reduce many aspects of blight throughout the City. The Agency is funded by property tax increment which allows it to receive and spend property tax revenues from the increase in assessed value that has occurred after adopting a redevelopment project. Twenty percent of tax increment is required by State statutes to be spent to increase and improve housing for low and moderate income persons.

The Agency operates with 2.66 full time equivalent staff positions to administer to all its activities. Outside consultants are hired as supplemental staffing for special projects. An economic development program was established to help businesses within the redevelopment project area. An Economic Development Commission was created to guide efforts to reduce or eliminate economic blight.

The first major project completed by the Agency was the construction of the downtown civic center plaza in 1996. This project was financed by the issuance of \$1.3 million of tax allocation bonds. Today, many annual special and community events are held there including a scarecrow contest, an art sculpture competition, the Black Bart Street Fair, Friday Night Live summertime entertainment, and a month long series of holiday events each December.

Another major project financed by the Agency was the Cloverdale Boulevard reconstruction project in which about a half mile of the Boulevard through the downtown area was redone to improve, market, and promote the downtown area. Four lanes of the Boulevard were reduced to two to accommodate improvements designed to make the downtown more pedestrian friendly. Sidewalks were widened and fountains and benches were installed and the project was integrated with the downtown plaza. This project was completed in 2004 after almost ten years of planning. It was financed through various grants and a \$2.776 million loan from the California Infrastructure and Economic Development Bank (CIEDB).

The Agency also completed the construction of Sandholm Lane in 2004 creating opportunities for new industrial and business uses south of town. Today, Sandholm Lane has a storage unit business, a commercial building and room for more development. This project was primarily financed by a loan from the CIEDB. Property owners who benefited from these improvements signed Owner Participation Agreements (OPA) to pay for the debt service on the loan.

The Agency supports the overall City wide housing program. Between 1999 and 2002, the City has added 23 very low income, 20 low income, and 14 moderate income units, mostly within the Agency boundaries. In its efforts to improve low and moderate income housing, the Agency worked with interested developers to provide financial assistance. In November 2002, the Agency provided \$174,000 to subsidize the Ioli Ranch, a very low and low income self-help housing project. In 2005-06, the Agency will provide \$350,000 to conserve 32 units of very low income senior housing, and keep the Divine Senior Apartments from changing to market rate housing.

FISCAL 2005 FINANCIAL HIGHLIGHTS

Agency revenues experienced continued growth in the project area. Property tax increment, the Agency's primary revenue source, increased 26% from \$1.4 million in fiscal year 2003-04 to \$1.8 million in fiscal year 2004-05.

- The assets of the Agency exceeded its liabilities at June 30, 2005, by \$4.5 million (net assets).
- The Agency's total net assets increased by \$1.4 million from the prior year which is largely due to a decrease in capital project expenses and an increase of twenty-six percent in property tax increment due to increased property values and property sales during the year.
- As of June 30, 2005 the Agency's governmental funds reported combined ending fund balances of about \$2.5 million, an increase of over \$941 thousand from the prior year's combined fund balance of \$1,537,682. The increase is due to tax increment revenue growth and decreased expenditures.
- At June 30, 2005, total unreserved fund balance in the Agency's governmental funds of \$2,036,525 increased \$876,244 from the prior year's balances of \$1,160,281.
- The Agency's total outstanding debt increased by \$452,345 during the current fiscal year. The increase was chiefly due to the continuing drawdown on the CIEDB Loan to finance road and drainage improvements on Sandholm Lane.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This Report is in three parts:

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

The Basic Financial Statements

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

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

The Fund Financial Statements report the Agency's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the Agency's Major Funds. The

Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major Funds account for the major financial activities of the Agency and are presented individually, while the activities of any Non-major Funds would be presented in summary, with subordinate schedules presenting the detail for each of these other funds. The Agency does not have any Non-major Funds. Major Funds are explained below.

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

The Government-wide Financial Statements

All of the Agency's basic services are considered to be Governmental activities, including economic development, pass through agreements, and debt service. General Agency revenues such as incremental property taxes and investment earnings support these services.

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

Fund Financial Statements

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Government-wide financial statements.

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

The Agency has four Major Governmental Funds in 2005. These are the Special Revenue fund, the Low/Moderate Income Housing Fund, Capital Projects Fund and the Debt Service Fund, each of which is discussed in detail below.

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the Agency as a whole. Tables 1, 2 and 3 focus on the Agency's Governmental Statement of Net Assets and Statement of Activities.

Governmental Activities

Governmental Net Assets presents total program assets and liabilities and the resulting allocation of the Agency's net assets.

Table 1
Net Assets
(Full Accrual, In Whole Dollars)

Assets	2005	2004
Cash and other assets	\$ 2,822,793	\$ 1,760,502
Capital assets	6,631,489	-
Total Assets	<u>\$ 9,454,282</u>	<u>\$ 1,760,502</u>
Liabilities		
Long - term debt	\$ 4,603,571	\$ 4,151,226
Other liabilities	343,389	239,253
Total Liabilities	<u>\$ 4,946,960</u>	<u>\$ 4,390,479</u>
Net Assets:		
Invested in capital assets, net of	\$ 2,027,918	\$ (4,151,226)
Restricted	1,326,090	1,039,347
Unrestricted	1,153,314	481,902
Net assets as previously reported	<u>4,507,322</u>	<u>(2,629,977)</u>
Capital assets adjustment	-	5,877,915
Other adjustments	-	(126,458)
Total Net Assets as restated	<u>\$ 4,507,322</u>	<u>\$ 3,121,480</u>

The Agency's governmental net assets amounted to \$ 4.507 million at June 30, 2005. The Agency's net assets at June 30, 2005 are comprised of the following:

- Unrestricted cash and investments comprised \$1.153 million of pooled cash and investments available for operations. Substantially all of these amounts were held in the City's cash and investment pool as described in Note 3 to the financial statements.
- Long-term debt of \$4.603 million, of which \$4.455 million is due in future years and \$148 thousand, is due currently.
- The \$ 2.027 million of 'Invested in capital assets, net of ' describes the portion of Net Assets that represents the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.
- Restricted net assets total \$1.326 million, of which \$1.211 million is restricted for low and moderate income housing purposes, and \$115 thousand may be used only for debt service. The restrictions on these funds were placed there by outsiders and cannot be changed by the Agency.
- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The Agency had \$1.153 million of unrestricted net assets at June 30, 2005.

Changes in Governmental Net Assets

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

Table 2
Changes in Net Assets
(Full Accrual, In Whole Dollars)

	<u>2005</u>	<u>2004</u>
Revenues		
Program Revenues		
Charges for services	\$ 285,629	\$ 55,831
General Revenues		
Property tax increments	1,779,160	1,409,446
Interest	60,675	20,387
Total Revenues	<u>2,125,464</u>	<u>1,485,664</u>
Expenses		
Community Redevelopment	677,868	4,394,155
Interest and Fees	187,173	185,889
Total Expenses	<u>865,041</u>	<u>4,580,044</u>
Increase (Decrease) in Net Assets Before Transfers	1,260,423	(3,094,380)
Transfers	125,419	770,139
Increase (Decrease) in Net Assets	<u>1,385,842</u>	<u>(2,324,241)</u>
Net Assets-July 1, 2004 and 2003	(2,629,977)	(305,736)
Capital assets adjustment	5,877,915	5,751,457
Other adjustments	(126,458)	
Net Assets-July 1, 2004 and 2003 as restated	<u>3,121,480</u>	<u>5,445,721</u>
Net Assets - June 30, 2005 and 2004	<u>\$ 4,507,322</u>	<u>\$ 3,121,480</u>

As Table 2 above shows, \$285 thousand (14%) of the Agency's 2005 Governmental revenue is program revenue and \$1.83 million (86%) came from general revenues such as taxes and interest. Program revenues were comprised of charges for services, which include reimbursements for expenses incurred in providing services. Most of these revenues, \$283 thousand, were from the early payoff of an owner participation agreement related to the Sandholm Road improvements capital project. General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Net Revenue (Expense) of Governmental Activities

Table 3 presents the net (expense) or revenue of each of the Agency's governmental activities, including interest on long-term debt. Net expense is defined as total program cost less the revenues generated by those specific activities.

Table 3
Net Cost of Service
(Full Accrual, In Whole Dollars)

	<u>2005</u>	<u>2004</u>
Redevelopment Projects	\$ (677,868)	\$ (4,394,155)
Charges for service	285,629	55,831
Interest	(187,173)	(185,889)
Total Net Cost of Service	<u>\$ (579,412)</u>	<u>\$ (4,524,213)</u>

BUDGET HIGHLIGHTS

During the year, the Agency made only minor revisions to its budget. The Housing Set-Aside (HSA) and Debt Service Funds realized favorable budget variances for tax increment revenues. This was due to re-sales of homes at rapidly increasing prices coupled with a more rapid rate of construction of housing stock than had been anticipated. The HSA fund received tax increment revenue of \$483 thousand compared to a budget of \$321 thousand while the Debt Service fund's tax increment was \$1.295 million compared to a budget of \$1.092 million.

The most significant budget variance for appropriations was in the Housing Set-Aside fund. Appropriations for services totaled \$240 thousand compared to actual expenditures of \$6.6 thousand. This difference was primarily due to the Devine Senior Apartments Project. A budget of \$200 thousand was established to preserve affordability for the Apartments, which were rented to residents of low and moderate income. However, the project sponsors moved more slowly than anticipated so the funds were not spent in fiscal year 2004-05. The project was re-budgeted in fiscal year 2005-06.

THE AGENCY'S FUND FINANCIAL STATEMENTS

Table 4 below summarizes Governmental Funds' fund balances:

Table 4
Fund Balances
(Modified Accrual, In Whole Dollars)

Governmental Funds	<u>2005</u>	<u>2004</u>	<u>(Decrease)</u>
Redevelopment	\$ 890,738	\$ 481,902	\$ 408,836
Housing Set-Aside	1,211,447	753,278	458,169
Capital Projects	-	-	-
Debt Service	377,219	302,502	74,717
Total fund balances	<u>\$ 2,479,404</u>	<u>\$ 1,537,682</u>	<u>\$ 941,722</u>

CAPITAL ASSETS

For the first time, all of the Agency’s infrastructure assets have been reported in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34. These assets include roads, sidewalks, bridges, drainage systems, and street lighting systems as well as treatment plants, water mains, and sewer lines. Values are reported at historical cost or if not available, estimated historical cost.

Table 5
Capital Assets
June 30, 2005
(In Whole Dollars)

	2005	2004
Land - Nondepreciable	\$ 169,077	\$ 115,524
Buildings and Improvements	1,165,144	1,165,144
Improvements other than Buildings	-	72,149
Equipment & Vehicles	21,333	73,442
Infrastructure	4,559,385	4,559,385
Construction In Progress	1,161,658	130,387
Total Capital Assets	<u>7,076,597</u>	<u>6,116,031</u>
Less: Accumulated Depreciation	<u>(445,108)</u>	<u>(238,116)</u>
Capital Assets - Net	<u>\$ 6,631,489</u>	<u>\$ 5,877,915</u>

Analyses of Major Governmental Funds

Special Revenue Fund

Accounts for activities of the Community Development Agency of the City not accounted for in the other funds. Activities include economic development program expenses and general and administrative expenses. Fund resources are primarily from tax increment revenues transferred from the Debt Service Fund.

Low and Moderate Income Housing Fund

Accounts for administering the housing component of the Redevelopment plan. The revenue source for this program comes from the 20% State-mandated housing set-aside deducted from incremental property taxes.

Capital Projects Fund

This Fund accounts for capital project expenses of the Agency. During fiscal year 2004-2005, the Agency’s capital project expenses were for final expenses related to the Cloverdale Boulevard Reconstruction Project and for installing pavement, gutters, and other improvements on Sandholm Road between S. Cloverdale Boulevard and Foothill Boulevard.

Debt Service Fund

This Fund accounts for financial resources to be used for the payment of principal and interest in long-term obligations. Each of the Agency's debt issues is discussed in detail in Note 7 to the financial statements. At June 30, 2005, the Agency's debt comprised:

Table 6
Outstanding Debt
June 30, 2005
(In Whole Dollars)

	<u>2005</u>	<u>2004</u>
1995 Tax Allocation Bonds	\$ 1,120,000	\$ 1,145,000
Rural Economic Development Infrastructure Program	65,516	77,587
California Integrated Waste Management Board	149,721	183,607
California Infrastructure Rural Economic Development Bank	3,255,555	2,732,853
Total Outstanding Debt	<u>\$ 4,590,792</u>	<u>\$ 4,139,047</u>

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the Agency and its major initiatives are discussed in detail in the Letter of Transmittal in the City of Cloverdale Annual Financial Report for the Fiscal Year Ended June 30, 2005.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to Barry Whitley, Finance Director, City of Cloverdale, 124 N. Cloverdale Boulevard, Cloverdale, CA 95425.

Basic Financial Statements

THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
ASSETS	
Cash and investments	\$ 1,864,745
Restricted cash and investments	114,643
Accounts receivable	765,476
Note receivable	65,660
Interest receivable	12,269
Capital assets - net	6,631,489
Total Assets	\$ 9,454,282
LIABILITIES	
Accounts payable	\$ 24,715
Accrued payroll and benefits	8,544
Deferred Revenue	310,130
Long-term liabilities:	
Due within one year	148,029
Due more than one year	4,455,542
Total Liabilities	\$ 4,946,960
NET ASSETS	
Invested in capital assets, net of related debt	\$ 2,027,918
Restricted for:	
Low income housing	1,211,447
Debt service	114,643
Unrestricted	1,153,314
Total Net Assets	\$ 4,507,322

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

**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Governmental Activities
Program Expenses:	
Redevelopment	\$ 470,876
Interest and fees	187,173
Depreciation	206,992
Total Program Expenses	865,041
Program Revenues:	
Charges for services	285,629
Total Program Revenues	285,629
Net Program Income (Expense)	(579,412)
General Revenues and Transfers:	
Tax allocation increment	1,779,160
Interest	60,675
Transfer in from the City of Cloverdale	125,419
Total General Revenues and Transfers	1,965,254
Change in Net Assets	1,385,842
Net Assets - Beginning	(2,629,977)
Restatement of Beginning Net Assets	5,751,457
Net Assets - Beginning, as Restated	3,121,480
Net Assets - Ending	\$ 4,507,322

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

THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005

	SPECIAL REVENUE FUNDS				Total Governmental Funds
	Redevelopment	Housing Set-Aside	Capital Projects Fund	Debt Service Fund	
ASSETS:					
Cash and investments available for operations	\$ 530,720	\$ 1,178,407	\$ 7,971	\$ 147,647	\$ 1,864,745
Restricted cash and investments	-	-	-	114,643	114,643
Accounts receivable	626,795	27,737	-	110,944	765,476
Note receivable	65,660	-	-	-	65,660
Interest receivables	1,526	6,758	-	3,985	12,269
TOTAL ASSETS	\$ 1,224,701	\$ 1,212,902	\$ 7,971	\$ 377,219	\$ 2,822,793
LIABILITIES AND FUND EQUITY:					
Accounts payable	\$ 16,231	\$ 513	\$ 7,971	\$ -	\$ 24,715
Accrued payroll and benefits	7,602	942	-	-	8,544
Deferred revenue	310,130	-	-	-	310,130
Total Liabilities	333,963	1,455	7,971	-	343,389
FUND EQUITY					
Reserved for:					
Notes receivable	65,660	-	-	-	65,660
Debt Service	-	-	-	377,219	377,219
Unreserved	825,078	1,211,447	-	-	2,036,525
Total Fund Balance	890,738	1,211,447	-	377,219	2,479,404
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,224,701	\$ 1,212,902	\$ 7,971	\$ 377,219	\$ 2,822,793

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

**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund Balance of Governmental Fund Statements		\$ 2,479,404
Amounts reported for governmental activities in the statement of net assets different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	\$ 7,076,597	
Accumulated depreciation	<u>(445,108)</u>	6,631,489
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Notes payable	\$ (3,470,792)	
Bonds payable	(1,120,000)	
Compensated absences	<u>(12,779)</u>	<u>(4,603,571)</u>
Government Wide Net Assets		<u>\$ 4,507,322</u>

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

**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>SPECIAL REVENUE FUNDS</u>				Total Governmental Funds
	<u>Redevelopment</u>	<u>Housing Set-Aside</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	
Revenues:					
Tax allocation increment	\$ -	\$ 483,806	\$ -	\$ 1,295,354	\$ 1,779,160
Interest income	24,291	23,016	-	13,368	60,675
Other	285,629	-	-	-	285,629
Total Revenues	309,920	506,822	-	1,308,722	2,125,464
Expenditures:					
Current:					
Community development	438,925	30,284	-	-	469,209
Capital outlay	-	-	1,087,024	-	1,087,024
Debt service:					
Principal retirement	-	-	-	149,100	149,100
Interest and fees	-	-	-	203,605	203,605
Total Expenditures	438,925	30,284	1,087,024	352,705	1,908,938
Excess (Deficiency) of Revenues over Expenditures	(129,005)	476,538	(1,087,024)	956,017	216,526
Other Financing Sources (Uses)					
Transfers in	941,381	2,731	1,087,024	-	2,031,136
Transfers out	(1,003,317)	(21,100)	-	(881,300)	(1,905,717)
Debt proceeds	599,777	-	-	-	599,777
Total Other Financing Sources (Uses)	537,841	(18,369)	1,087,024	(881,300)	725,196
Net Change in Fund Balances	408,836	458,169	-	74,717	941,722
Fund Balances - Beginning	481,902	753,278	-	302,502	1,537,682
Fund Balances - Ending	<u>\$ 890,738</u>	<u>\$ 1,211,447</u>	<u>\$ -</u>	<u>\$ 377,219</u>	<u>\$ 2,479,404</u>

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

**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

Net Changes in Fund Balances - Total Governmental Funds \$ 941,722

Amounts reported for governmental activities in the statement of net assets different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditure for capital assets	\$ 1,087,024	
Depreciation expense is deducted from the fund balance	<u>(206,992)</u>	880,032

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.

Repayment of debt principle is added back to fund balance	\$ 148,031	
Issuance of notes payable	<u>(599,777)</u>	(451,746)

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

Interest payable	\$ 16,434	
Compensated absences	<u>(600)</u>	<u>15,834</u>

Government Wide Changes in Net Assets \$ 1,385,842

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

Notes to Financial Statements

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE AGENCY AND REDEVELOPMENT PROJECTS

The Community Development Agency (Agency) of the City of Cloverdale, (City) was created on May 24, 1983, under the provisions of the Community Redevelopment Law (California Health and Safety Code) primarily to eliminate and reduce many aspects of visual, economic, physical, and social blights presently existing within the City.

Financial activity of the Agency commenced in June 1987. The Agency's Redevelopment Plan (Plan) was approved July 8, 1987. Under the Plan, the Agency functions as an independent entity, and its policies are determined by the City Council in a separate capacity as members of the Agency Board (Board). All staff work is performed by officials and staff of the City, or by consultants to the Agency.

The Agency is authorized to finance the plan through various sources, including assistance from the Federal Government, the State of California, the City of Cloverdale, issuance of Agency bonds, or any other available source permitted by law.

The Agency is an integral part of the City of Cloverdale and, accordingly, the accompanying basic financial statements are included as a component of the basic financial statements of the City.

The basic financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) as applied to government units.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

GASB requires that the financial statements described below be presented.

Government-wide Statements - The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency. Eliminations have been made to minimize the effect of interfund activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non - exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements - The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Major Funds

GASB Statement 34 defines major funds and requires the Agency's major governmental funds to be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Agency may also select other funds it believes should be presented as major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

Redevelopment Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Housing Set Aside Fund – This fund is used to account for twenty percent housing set aside from the tax increment proceeds.

Capital Projects Fund – This fund accounts for expenditures related to capital projects of the Agency.

Debt Service Fund – This fund is used to account for the accumulation of financial resources and the payment of general long-term obligation principal, interest and related costs.

Basis of Accounting

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

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable.

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

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

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

Cash and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments if they are liquid.

The City's investment policy and California Government Code permit investments in obligations of U.S. Treasury and its agencies, commercial paper, banker's acceptances, repurchase agreements, certificates of deposit, medium term notes, passbook savings account demand deposits, mutual funds and the State of California Local Agency Investment Fund.

Investments for the Agency are reported at fair value. The value is determined based upon market closing prices.

Interfund Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due to/due from other funds" (amounts due within one year), "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions), or "loans to/from other funds" (long-term lending/borrowing transactions as evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable Governmental Funds to indicate they are not available for appropriation, and are not expendable available financial resources.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Tax Increment

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However,

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. Property tax increment is recorded as revenue when it becomes both measurable and available to finance expenditures.

Budgets and Budgetary Accounting

The Agency operates under the general laws of the State of California and annually adopts a budget for its special revenue, capital projects, and debt service funds to be effective July 1 for the ensuing fiscal year. Budgets are subject to public hearing before they are adopted by the Board. Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America as prescribed by the GASB and the AICPA.

From the effective date of the budget, which is adopted and controlled at the fund level, the amounts stated therein, as proposed expenditures become appropriations to the various funds. The Board may amend the budget by resolution during the fiscal year. All appropriations lapse at fiscal year end.

Use of Estimates

The Agency's management has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

3. CASH AND INVESTMENTS

Cash

The Agency holds its cash in the City of Cloverdale (the "City"). The City maintains a cash and investment pool and allocates interest to the various funds based upon the average quarterly cash balances. Information regarding credit risk and collateral requirements, as applicable, can be found in the City's financial statements.

Investments

The Agency voluntarily participates in LAIF, regulated under Section 16429 of the State Government Code. LAIF allows local governments such as the Agency to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF.

Information regarding investment risks related to credit risk, concentration of credit risk and interest rate risk can be found in the City's financial statements.

Under GASB 31, the Agency must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

fiscal year. The City has determined that the amounts of any such adjustments would not be material.

4. NOTES RECEIVABLE

The Agency made loans available to local businesses meeting certain criteria as an incentive to remain in the City of Cloverdale. Payments are due monthly, including interest, with rates from 6.0% to 8.5% per annum and terms that mature through 2015. At June 30, 2005, there were two notes outstanding totaling \$65,660.

5. INTERFUND TRANSFERS

Fund Receiving Transfers	Fund Making Transfers	Amount
City of Cloverdale - General Fund	Redevelopment Housing Set-Aside Fund Debt Service Fund	\$ 58,015 21,100 6,300
Redevelopment	City of Cloverdale - General Fund Debt Service Fund	66,381 875,000
Housing Set- Aside Fund	City of Cloverdale - General Fund	2,731
Capital Projects Fund	Redevelopment City of Cloverdale - General Fund	945,302 141,722
		\$ 2,116,551
	Total Transfers To City of Cloverdale	\$ 2,116,551 (85,415)
	Total Transfers in	\$ 2,031,136
	Total Transfers From City of Cloverdale	\$ 2,116,551 (210,834)
	Total Transfers out	\$ 1,905,717

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

6. CAPITAL ASSETS

The following is a summary of the Agency's capital assets:

	Balance July 1, 2004	Additions	Adjustments & Retirements	Balance June 30, 2005
Governmental Activities Capital Assets:				
Land - Nondepreciable	\$ 115,524	\$ -	\$ 53,553	\$ 169,077
Buildings and Improvements	1,165,144	-	-	1,165,144
Improvements other than Buildings	72,149		72,149	-
Equipment & Vehicles	73,442	-	52,109	21,333
Infrastructure	4,559,385	55,753	55,753	4,559,385
Construction In Progress	130,387	1,031,271	-	1,161,658
Total Capital Assets	<u>6,116,031</u>	<u>1,087,024</u>	<u>233,564</u>	<u>7,076,597</u>
Less: Accumulated Depreciation	<u>(238,116)</u>	<u>(206,992)</u>	<u>-</u>	<u>(445,108)</u>
Governmental Activities Capital Assets - Net	<u>\$ 5,877,915</u>	<u>\$ 880,032</u>	<u>\$ 233,564</u>	<u>\$ 6,631,489</u>

Depreciation expense was \$206,992 for the fiscal year ended June 30, 2005.

7. LONG -TERM OBLIGATIONS

A. Changes in Long-term Obligations

The change in long-term obligations for the fiscal year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Retirements & Adjustments	Balance June 30, 2005	Due Within One Year
Long-term Obligations	\$ 2,994,047	\$ 599,777	\$ 123,031	\$ 3,470,792	\$ 118,029
Notes Payable	1,145,000	-	25,000	1,120,000	30,000
Tax Allocation Bonds Payable	12,179	600	-	12,779	-
Compensated Absences					
Long-term Obligations	<u>\$ 4,151,226</u>	<u>\$ 600,377</u>	<u>\$ 148,031</u>	<u>\$ 4,603,571</u>	<u>\$ 148,029</u>

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

B. Compensated Absences

Agency employees accumulate earned but unused vacations and sick pay benefits which can be converted to cash at termination of employment. Since no means exists to reasonably estimate the amounts that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term on the Statement of Net Assets. No expenditure is reported for these amounts in the governmental funds statements. However, in the statement of activities the expense is allocated to each function based on usage. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, at June 30, 2005, total \$12,779 for governmental activities.

C. Tax Allocation Bonds

In 1995, the Community Development Agency of the City of Cloverdale issued \$1,323,000 of the 1995 Tax Allocation Bonds to finance redevelopment activities relating to the Cloverdale Redevelopment Project, primarily for the construction of the downtown plaza. The bonds were purchased by the Association of Bay Area Governments (ABAG) to form a California Redevelopment Agency Pool as security for 1995 tax allocation revenue bonds issued by ABAG. The Agency bonds are payable from property tax increment revenues with principal payments ranging from \$20,000 to \$90,000, due December 1 of each year until the year 2025. Interest ranges from 3.9% to 7.25% per annum and is payable semi-annually on December 1 and June 1. Debt service requirements are summarized as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 30,000	\$ 69,689	\$ 99,689
2007	30,000	68,006	98,006
2008	30,000	66,281	96,281
2009	35,000	64,384	99,384
2010	35,000	62,282	97,282
2011-2015	205,000	275,484	480,484
2016-2020	285,000	199,723	484,723
2021-2025	380,000	96,306	476,306
2026	90,000	3,416	93,416
Total	\$ 1,120,000	\$ 905,571	\$ 2,025,571

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

D. Notes Payable

Department of Commerce Note

At June 30, 2005, \$65,516 was outstanding on a State of California, Department of Commerce note in the original amount of \$162,402, used to finance the South Industrial Sewer Expansion Program. Interest payment, at 2.75%, are payable semi-annually on each December 1 and June 1. Principal matures annually on each December 1. The note will mature in the fiscal year 2010. The future principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 12,403	\$ 1,631	\$ 14,034
2007	12,743	1,285	14,028
2008	13,094	930	14,024
2009	13,454	565	14,019
2010	13,822	190	14,012
Total	\$ 65,516	\$ 4,601	\$ 70,117

California Integrated Waste Management Board Note

At June 30, 2005, \$149,721 was outstanding on a California Integrated Waste Management Board note in the original amount of \$300,000, used to finance the construction of public improvements on Santana Drive. Payments, including interest at 5.1%, of \$19,408 are payable semi-annually. The note will mature in the fiscal year 2010 and is partially secured by a pledge of tax increment revenues. The future principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 31,553	\$ 7,262	\$ 38,815
2007	33,201	5,615	38,816
2008	34,934	3,881	38,815
2009	36,758	2,057	38,815
2010	13,275	315	13,590
Total	\$ 149,721	\$ 19,130	\$ 168,851

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

California Infrastructure and Economic Development Bank Note

In July 2003, the Community Development Agency secured a note for \$3,658,600 from California Infrastructure and Economic Development Bank for construction and rehabilitation of Cloverdale Boulevard and Sandholm Road/Foothill Boulevard. The note carries an interest rate of 3.53%. Interest is due semiannually, June 1 and December 1, and principal is due annually on June 1. The balance of the note at June 30, 2005, was \$3,255,555. The future principal and interest payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 74,073	\$ 126,340	\$ 200,413
2007	76,688	120,497	197,185
2008	79,395	117,512	196,907
2009	82,198	114,422	196,620
2010	85,099	111,223	196,322
2011-2015	472,734	504,027	976,761
2016-2020	562,274	405,297	967,571
2021-2025	668,773	287,867	956,640
2026-2030	795,445	148,194	943,639
2031-2035	358,876	14,402	373,278
Total	\$ 3,255,555	\$ 1,949,781	\$ 5,205,336

8. NET ASSETS AND FUND BALANCES

Net Assets are the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

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

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

Reservations of Fund Balances - Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of fund balance that has been appropriated for expenditure or is legally segregated for a specific future use. As of June 30, 2005, portions of fund balance had been reserved because of the following:

Redevelopment Projects reserves are note receivable and debt.

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

NOTES TO FINANCIAL STATEMENTS

Low & Moderate Income Housing reserves reflect the amounts to be expended for low and moderate-income housing or rental rehabilitation.

Debt Service reserves reflect the cash balances in the debt service funds that are restricted for debt service payments.

Restatement of Beginning Net Assets - In order to implement GASB Statement No. 34, the Agency was required to complete and evaluate an inventory of all capital assets, including infrastructure, owned and placed in service by the Agency. The impact of GASB 34 on the Agency's accounting and financial reporting process was to report all long-term assets, including capital assets, in the Statement of Net Assets, and report all revenues and costs of providing services, including depreciation, in the statement of activities. The following summarizes restatements to beginning net assets resulting from the implementation of GASB 34:

	Governmental Activities
Net Asset as of July 1, 2004, as Previously Reported	\$ (2,629,977)
Capital Assets Net Depreciation	5,877,915
Other Adjustments	(126,458)
Net Assets as of July 1, 2004, as Restated	\$ 3,121,480

9. CONTINGENCIES

Litigation - The Agency is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Agency's counsel that resolution of these matters will not have a material adverse effect of the financial condition of the Agency.

Grants - The Agency is the recipient of various state and federal grants. These grants are subject to review and audit by the funding agency. Although such audits could result in expenditure disallowances under the terms of the grants, these required reimbursements are not expected to be material.

10. REVENUE LIMITATIONS IMPOSED BY CALIFORNIA PROPOSITION 218

Proposition 218, which was approved by the voters in November 1996, will regulate the Agency's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and could be rescinded in the future years by the voters.

Required Supplementary Information

**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
REDEVELOPMENT GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Interest	\$ 5,000	\$ 24,291	\$ 19,291
Other	283,791	285,629	1,838
Total Revenues	<u>288,791</u>	<u>309,920</u>	<u>21,129</u>
Expenditures:			
Community development	528,210	438,925	89,285
Total Expenditures	<u>528,210</u>	<u>438,925</u>	<u>89,285</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(239,419)</u>	<u>(129,005)</u>	<u>110,414</u>
Other Financing Sources (Uses)			
Transfers in	760,680	941,381	180,701
Transfer out	(988,725)	(1,003,317)	(14,592)
Debt proceeds	567,509	599,777	32,268
Total Other Financing Sources (Uses)	<u>339,464</u>	<u>537,841</u>	<u>198,377</u>
Net Change in Fund Balance	<u>\$ 100,045</u>	408,836	<u>\$ 308,791</u>
Fund Balance - Beginning		<u>481,902</u>	
Fund Balance - Ending		<u>\$ 890,738</u>	

**THE COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF CLOVERDALE
HOUSING SET-ASIDE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Tax allocation increment	\$ 321,200	\$ 483,806	\$ 162,606
Interest	6,000	23,016	17,016
Total Revenues	<u>327,200</u>	<u>506,822</u>	<u>179,622</u>
Expenditures:			
Community development	<u>269,190</u>	<u>30,284</u>	<u>238,906</u>
Total Expenditures	<u>269,190</u>	<u>30,284</u>	<u>238,906</u>
Excess (Deficiency) of Revenues over Expenditures	<u>58,010</u>	<u>476,538</u>	<u>418,528</u>
Other Financing Sources (Uses)			
Transfers in	3,140	2,731	(409)
Transfer out	<u>(21,100)</u>	<u>(21,100)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(17,960)</u>	<u>(18,369)</u>	<u>(409)</u>
Net Change in Fund Balance	<u>\$ 40,050</u>	458,169	<u>\$ 418,119</u>
Fund Balance - Beginning		<u>753,278</u>	
Fund Balance - Ending		<u>\$ 1,211,447</u>	

Other Independent Auditor's Reports



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

ROBERT E. BARSANTI, C.P.A. (RETIRED) PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of the
Community Development Agency of the
City of Cloverdale, California

We have audited the basic financial statements of the Community Development Agency of the City of Cloverdale ("the Agency") as of and for the year end June 30, 2005, and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Agency's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Chairperson, members of the Board, and the State Controller's office, and is not intended to be and should not be used by anyone other than these specified parties.

November 10, 2005
Redwood City, California

Findings and Recommendations

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

SUMMARY OF COMPLIANCE FINDINGS

YEAR ENDED JUNE 30, 2005

No current year findings.

**THE COMMUNITY DEVELOPMENT AGENCY
Of THE CITY OF CLOVERDALE**
SUMMARY OF PRIOR YEAR COMPLIANCE FINDINGS
YEAR ENDED JUNE 30, 2005

Compliance

Finding # 2004-1

The Agency did not have a five –year implementation plan at June 30, 2004.

Recommendation

We recommended the Agency adopt a current five-year implementation plan.

Corrective Action Plan

The plan was approved in August 2004.

Questioned Costs

Unknown.

Status

Implemented.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

SUPPLEMENTAL INFORMATION CITY OF CLOVERDALE

The following information relating to the City of Cloverdale and, to some extent, the County of Sonoma is supplied solely for purposes of information. Neither the City nor the County is obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds. The Bonds are payable solely from Tax Revenues and other moneys as described in this Official Statement. The Project Area is located within the boundaries of the City.

Municipal Government

The City of Cloverdale (the “City”) was incorporated in 1872 and operates as a general law city. The City operates under a Council/Manager form of government. The four-member City Council acts as the City’s chief policy-making body. Every two years, Councilmembers are elected by the citizens of the City to serve four-year, overlapping terms. Councilmembers are not limited to the number of terms they may serve. The Mayor is selected by the Council, is its presiding officer and serves a two-year term.

Population

The following table shows a historical comparison of the respective populations of the City, the County and the State since calendar year 2001.

CITY OF CLOVERDALE Demographic Statistics

Area	2001	2002	2003	2004	2005
City of Cloverdale	7,084	7,342	7,494	7,974	8,241
County of Sonoma	464,764	469,069	471,644	474,993	478
State of California	34,441,561	35,088,671	35,691,442	36,271,091	36,810,358

Source: State of California Employment Development Department, Historical City/County Population Estimates 1991-2000, and City/County Population Estimates with Annual Percent Change, January 1, 2001-2005.

Employment

The following table sets forth information regarding employment for the County since calendar year 2001.

COUNTY OF SONOMA
Annual Average Employment

Industry	2001	2002	2003	2004	2005
Total, All Industries	196,700	192,700	189,100	190,700	192,100
Total Farm	7,000	6,500	5,900	5,700	5,600
Total Nonfarm	189,800	186,600	183,200	184,900	186,500
Total Private	161,800	158,200	154,800	155,300	156,100
Goods Producing	44,300	40,900	38,600	38,100	38,200
Natural Resources, Mining and Construction	300	300	300	300	200
Manufacturing	30,400	27,300	25,300	24,200	14,300
Trade, Transportation and Utilities	34,100	34,100	33,900	34,200	3,700
Wholesale Trade	6,000	6,000	6,300	6,700	1,300
Retail Trade	24,100	24,000	23,800	23,600	2,400
Information	4,500	4,200	4,000	4,300	148,400
Financial Activities	10,400	10,300	10,300	10,000	117,900
Professional and Business Services	20,000	19,000	19,000	19,600	23,700
Educational and Health Services	22,900	23,300	22,700	22,500	5,900
Leisure and Hospitality	18,700	19,700	19,900	20,200	5,200
Other Services	6,800	6,700	6,400	6,400	14,400
Government	28,000	28,400	28,500	29,700	3,700

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: Employment Development Department, Labor Market Information Division, Industry Employment & Labor Force- by Annual Average, March 2005 Benchmark; U.S. Department of Labor, Bureau of Labor Statistics, "Unemployment Rates for States, Annual Average Rankings, Year 2005".

Commercial Activity

The following tables show the taxable transactions of the County since calendar year 2000 and the number of permits and valuation of taxable transactions since 2001, as provided by the California State Board of Equalization.

SONOMA COUNTY TAXABLE TRANSACTIONS

Business Group	2000	2001	2002	2003	2004
Apparel Stores	\$153,888	\$165,179	\$168,449	\$176,137	\$199,507
General Merchandise ⁽¹⁾	713,719	734,729	740,208	775,700	801,138
Specialty Stores	602,868	598,766	599,165	607,533	647,587
Food Stores	346,175	362,585	366,072	374,162	384,083
Eating & Drinking	450,519	469,506	476,201	491,965	517,081
Household	219,690	214,758	234,343	233,212	239,480
Building Material	488,413	513,448	519,278	540,393	614,786
Automotive	1,402,538	1,432,863	1,392,825	1,445,715	1,508,768
All Other Retail Stores	255,661	248,995	253,405	253,890	276,156
Retail Stores Total	\$4,633,471	\$4,740,829	\$4,749,946	\$4,898,707	\$5,188,586
Business and Personnel Services	318,229	314,771	309,574	312,864	310,566
All other Outlets	1,871,844	1,763,765	1,643,345	1,584,634	1,689,935
Total Outlets	\$6,823,544	\$6,819,365	\$6,702,865	\$6,796,205	\$7,189,087

(1) Drug Stores have been merged with general merchandise stores and packaged liquor stores have been merged with other retail stores.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax) Annual reports by type of Business for Cities and Counties for years 2001-2004, 2005 is not available.

SONOMA COUNTY Number of Permits and Valuation of Taxable Transactions

Year	Retail Sales			Total All Outlets		
	No. of Permits	Taxable Transaction	Percent Change	No. of Permits	Taxable Transaction	Percent Change
2001	5,365	4,740,829	2.3%	16,612	6,819,365	-0.1%
2002	5,611	4,749,946	0.2	16,779	6,702,865	-1.7
2003	6,057	4,898,707	3.1	17,068	6,796,205	1.4
2004	6,391	5,188,586	5.9	17,344	7,189,087	5.8
2005 ⁽¹⁾	NA	2,549,699	N/A	NA	3,562,512	N/A

(1) Represents data through the 2nd Quarter of 2005.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax) Annual reports by type of Business for Cities and Counties for years 2001-2004 and 2nd Quarter of 2005.

Construction Activity

The following tables provide a summary of residential building permit valuation and the number of new dwelling units authorized in the City and the County from 2001 through 2005.

CITY OF CLOVERDALE Total Building Permit Valuations (valuations in thousands)

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	\$12,698.6	\$28,425.3	\$36,467.7	\$32,179.7	\$10,495.5
New Multi-family	--	279.3	2,441.0	320.0	7,054.4
Res. Alterations/ Additions	960.0	168.4	437.9	732.1	435.7
Total Residential	\$13,658.6	\$28,873.0	\$39,346.6	\$33,231.8	\$17,985.6
New Commercial	\$429.4	\$5,975.7	\$0.0	\$2,039.0	\$2,067.8
New Industrial	--	--	--	1,133.8	--
New Other	609.7	688.2	595.4	716.5	812.1
Com. Alterations/ Additions	601.0	--	739.0	179.2	947.9
Total Nonresidential	\$1,640.1	\$6,663.9	\$1,334.4	\$4,068.5	\$3,827.8
New Dwelling Units					
Single Family	54.0	120.0	161.0	115.0	37.0
Multiple Family	--	2.0	16.0	2.0	51.0
Total	54.0	122.0	177.0	117.0	88.0

Source: Construction Industry Research Board, Building Permit Summary.

SONOMA COUNTY Total Building Permit Valuations (valuations in thousands)

	2001	2002	2003	2004	2005
Permit Valuation					
New Single-family	\$307,680.7	\$295,768.8	\$322,260.4	\$302,185.9	\$379,463.8
New Multi-family	69,411.6	31,115.1	86,300.3	57,640.3	135,706.4
Res. Alterations/ Additions	71,002.6	72,698.0	75,012.9	81,301.0	89,454.4
Total Residential	\$448,094.9	\$399,581.9	\$483,573.6	\$441,127.2	\$604,624.6
New Commercial	\$90,854.1	\$129,222.9	\$57,874.8	\$109,731.5	\$79,743.3
New Industrial	22,228.2	8,861.1	12,447.6	3,874.8	3,127.3
New Other	41,162.5	43,708.6	61,150.4	45,222.3	51,523.2
Com. Alterations/ Additions	57,483.6	62,599.0	67,676.1	81,846.1	88,695.2
Total Nonresidential	\$211,728.4	\$244,391.6	\$199,148.9	\$240,674.7	\$223,089.0
New Dwelling Units					
Single Family	1,646.0	1,295.0	1,388.0	1,343.0	1,521.0
Multiple Family	933.0	540.0	951.0	598.0	1,373.0
Total	2,579.0	1,835.0	2,339.0	1,941.0	2,894.0

Source: Construction Industry Research Board, Building Permit Summary.

Community Services and Facilities

Cloverdale has one health care facility, six physicians/surgeons, four dentists, two chiropractors, three optometrists, two acupuncturists, five nurse practitioners, one convalescent hospital and an ambulance service. A full service hospital is nearby. There is one primary school, one secondary school, one high school and one continuation school. There are thirteen churches, one library, one newspaper, one radio cable system, one TV cable system, three banks, five parks and four playgrounds. Other recreational facilities include the River Park on the Russian River, river beaches, four ballparks, tennis courts, swimming pool, various clubs and organizations, and a historical museum.

Transportation

U.S. Highway 101 and State Highway 128 Business Routes go through the center of town; Highway 101 Freeway Bypass opened in April 1994 with three interchanges serving the community. Freight, Passenger and Commuter Rail service to San Rafael is expected in the near future. Sonoma County Airport, twenty miles south, is a full-service airport providing commuter flights to San Francisco International Airport with domestic and international connections. There is a barge service from Petaluma on the Petaluma River to all inland ports on San Francisco Bay and the Sacramento Delta.

Environment and Geography

Cloverdale, incorporated in 1872, is 32 miles north of Santa Rosa, 85 miles north of San Francisco and 460 miles north of Los Angeles. The City is 2.7 square miles in size. The County covers 1,640 square miles with 62 miles of coastal shoreline. The climate in Cloverdale is mild year-round. In July, the hottest month of the year, the average high temperature is 91 degrees with a low of 54 degrees. The winter months of December and January have an average high of 57 degrees and an average low of 38 degrees. The average rainfall in Cloverdale is 4 inches a year.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

SUMMARY OF THE INDENTURE

The following is a brief summary of the provisions of the Indenture, and is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement. This summary does not purport to be comprehensive or definitive, and reference should be made to such documents for full and complete statements of their respective provisions. All capitalized terms used but not otherwise defined in this Appendix shall have the meanings assigned to such terms in the Indenture.

Definitions

Accreted Value

The term “Accreted Value” means, with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the initial amount thereof and the interest accrued and compounded thereon, as determined in accordance with the provisions of the Supplemental Indenture authorizing issuance of such Bonds, to such date of calculation.

Additional Allowance

The term “Additional Allowance” means, as of the date of calculation, the amount of Tax Revenues which, as shown in a Consultant’s Report, are estimated to be receivable by the Agency in the next Fiscal Year as a result of increases in the assessed valuation of taxable property in the Project Area due to either (i) construction which has been completed but has not yet been reflected on the tax roll, or (ii) transfer of ownership or any other interest in real property, which is not then reflected on the tax roll.

Agency

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

Ambac Assurance

The term “Ambac Assurance” means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company.

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

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

With respect to Capital Appreciation Bonds, the Accreted Value payment shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bonds.

If any Bonds bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of (a) the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if such 25 Bond Revenue Index is no longer published) or (b) the average variable rate of interest borne by such Bonds during the preceding 36 months or, if such Bonds were not outstanding during all of the preceding 36 months, the highest interest rate borne by variable interest rate debt for which the interest rate is computed by reference to a variable interest rate formula comparable to that utilized for such Bonds.

“Annual Debt Service” shall not include (a) interest on Bonds which is to be paid from amounts constituting capitalized interest or (b) principal and interest allocable to that portion of the proceeds of any Bonds required to remain unexpended and to be held in escrow pursuant to the terms of a Supplemental Indenture, provided that (i) projected interest earnings on such amounts, if any, deposited by the Agency in the Interest Account, are sufficient to pay the interest due on such portion of the Bonds so long as it is required to be held in escrow and (ii) the conditions for the release of such proceeds from escrow, insofar as they relate to Tax Revenue coverage and satisfaction of the Reserve Account Requirement, are substantially the same as those for the issuance of Additional Bonds.

The term “Average Annual Debt Service” means the average Annual Debt Service over all Bond Years.

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

Authority

The term “Authority” means the Cloverdale Improvement Authority.

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 for the moneys proposed to be invested therein:

- A. Defeasance Obligations.
- B. Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 1. Export-Import Bank;
 2. Rural Economic Community Development Administration;
 3. U.S. Maritime Administration;
 4. Small Business Administration;
 5. U.S. Department of Housing & Urban Development (PHAs);
 6. Federal Housing Administration;
 7. Federal Financing Bank;

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

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

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

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

F. Investments in a money market fund rated "AAAm" or AAAM-G" or better by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide advisory or other management services;

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

1. which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
2. (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

H. Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;

I. Investment Agreements approved in writing by Ambac Assurance (supported by appropriate opinions of counsel); and

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

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

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

B. As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest thereon; and

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

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 2006 Bonds, Additional Bonds, Capital Appreciation Bonds, Serial Bonds, Term Bonds

The term “Bonds” means the Series 2006 Bonds and all Additional Bonds.

The term “Series 2006 Bonds” means the Hughson Redevelopment Agency, Tax Allocation Refunding Bonds, Series 2006 (Hughson Redevelopment Project).

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 “Capital Appreciation Bonds” means any Additional Bonds described as such when issued.

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.

Bond Insurer

The term “Bond Insurer” means the issuer or issuers of a policy or policies of municipal bond insurance (other than a Qualified Reserve Account Credit Instrument) 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. With respect to the Series 2006 Bonds, the term “Bond Insurer” means Ambac Assurance. 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.

Bond Year

The term “Bond Year” means each twelve month period extending from August 2 in one calendar year to August 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year shall extend from the Closing Date to August 1, 2006.

Business Day

The term “Business Day” means a day other than a Saturday, a Sunday or a day on which banks located in the city where the Trust Office of the Trustee is located are required or authorized to remain closed.

Certificate of the Agency

The term “Certificate of the Agency” means an instrument in writing signed by the Chairman or the Executive Director of the Agency, or by any other officer of the Agency duly authorized by the Agency for that purpose.

City

The term “City” means the City of Cloverdale, California.

Closing Date

The term “Closing Date” means the date of delivery of a Series of Bonds to the original purchaser thereof.

Code

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

Consultant's Report

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

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

County

The term "County" means the County of Sonoma, California.

Debt Service Fund

The term "Debt Service Fund" means the fund by that name held by the Trustee pursuant to the Indenture.

Defeasance Obligations

The term "Defeasance Obligations" means any of the following:

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

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

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

Depository

The term “Depository” means any 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.

Expense Fund

The term “Expense Fund” means the fund by that name held by the Trustee pursuant to the Indenture.

Final Compounded Amount

The term “Final Compounded Amount” means the Accreted Value of a Capital Appreciation Bond at maturity.

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 hereafter selected and designated by the Agency as its Fiscal Year in accordance with the Law and identified in writing to the Trustee.

Fitch

The term “Fitch” means Fitch IBCA, Inc., its successors and assigns.

Housing Fund

The term “Housing Fund” means the Low and Moderate Income Housing Fund established pursuant to Section 33334.3 of the Law 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,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government,” 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attention: Called Bonds Department; and S&P’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 Account

The term “Interest Account” means the account by that name within the Debt Service Fund held by the Trustee pursuant to the Indenture.

Interest Payment Date

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

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.

Loan Agreements

The term “Loan Agreements” means the REDIP loan contract made April 20, 1993 between the State Department of Commerce and the Agency, and the Tax Allocation Loan Agreement dated as of January 1, 2002 between the Agency and the California Infrastructure and Economic Development Bank, as amended.

Moody’s

The term “Moody’s” means Moody’s Investors Service, its successors and assigns.

Nominee

The term “Nominee” means Code & Co., or another 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 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 according to the registration books held by the Trustee.

Participants

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

Pass-Through Agreements

The term “Pass-Through Agreements” means any agreements entered into by the Agency with taxing agencies prior to January 1, 1994 pursuant to Section 33401 of the Law as it existed prior to January 1, 1994.

Pass-Through Payments

The term “Pass-Through Payments” means all payments required to be made in each Fiscal Year to any taxing agencies pursuant to the Law or any Pass-Through Agreements, but only to the extent that such payments are not subordinated to the payment of Debt Service.

Plan Limitations

The term “Plan Limitations” means the limitations contained or incorporated in the Redevelopment Plan on the aggregate amount of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan.

Principal Account

The term “Principal Account” means the account by that name within the Debt Service Fund held by the Trustee.

Principal Payment Date

The term “Principal Payment Date” means any date on which principal of any Series of Bonds is scheduled to be paid.

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, known as the Project Area.

Qualified Reserve Account Credit Instrument

The term “Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met: (i) at the time of issuance of the instrument, the long-term credit rating of such bank is within the highest rating category of Moody’s Investors Service and Standard & Poor’s, or the claims paying ability of such insurance company is rated within the highest rating category of A.M. Best & Company and Standard & Poor’s Ratings Group; (ii) such letter of credit or surety bond has a term of at least 12 months; (iii) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Account Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (iv) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder amounts necessary to carry

out the purposes specified in the Indenture, including the replenishment of the Interest Account, the Principal Account or the Sinking Account.

Record Date

The term “Record Date” means with respect to any Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

Redevelopment Fund

The term “Redevelopment Fund” means the Project Area Redevelopment Fund held by the Agency pursuant to the Indenture.

Redevelopment Plan

The term “Redevelopment Plan” means the Redevelopment Plan for the Project Area, adopted and approved by Ordinance No. 416-87 adopted by the City Council of the City on July 21, 1987, together with all amendments thereof or supplements thereto heretofore or hereafter made in accordance with the Law.

Reserve Account

The term “Reserve Account” means the account by that name within the Debt Service Fund held by the Trustee pursuant to the Indenture.

Reserve Account Requirement

The term “Reserve Account Requirement” (to be confirmed by the Agency to the Trustee upon the Trustee’s request) means, as of any calculation date, an amount equal to the least of (i) ten percent (10%) of the sum of the original stated principal amounts of all Series of Bonds, (ii) 125% of Average Annual Debt Service or (iii) Maximum Annual Debt Service.

S&P

The term “S&P” means Standard & Poor’s, its successors and assigns.

Securities Depositories

The term “Securities Depositories” means DTC 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.

Series 2006 Capitalized Interest Subaccount

The term “Series 2006 Capitalized Interest Subaccount” means the subaccount by that name in the Interest Account of the Debt Service Fund established and held by the Trustee pursuant to the Indenture.

Sinking Account

The term “Sinking Account” means the account by that name within the Debt Service Fund held by the Trustee pursuant to the Indenture.

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.

Special Fund

The term “Special Fund” means the Project Area Special Fund held by the Agency pursuant to the Indenture.

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.

Surety Bond

The term “Surety Bond” means the surety bond issued by Ambac Assurance guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitations set forth therein.

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 the Agency shall certify to the Trustee is not intended to meet the requirements for tax exemption under the Code) relating to the requirements of certain provisions of the Code, as each such certificate may from time to time be modified or supplemented in accordance with the terms thereof.

Tax Revenues

The term “Tax Revenues” means, for each Bond 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 (i) amounts, if any, received by the Agency pursuant to Section 16111 of the Government Code and (ii) Pass-Through Payments. "Tax Revenues" include amounts deposited by the Agency in the Housing Fund pursuant to Section 33334.2 or Section 33334.6 of the Law, as provided in the Redevelopment Plan, but only to the extent such amounts are used to pay principal or interest or other financing charges with respect to bonds or other obligations issued to increase, improve or preserve the supply of low and moderate income housing within or of benefit to the Project Area.

Total Maturity Amount

The term "Total Maturity Amount" means with respect to any Outstanding Bond other than a Capital Appreciation Bond, the aggregate principal amount thereof and, with respect to any Outstanding Capital Appreciation Bond, the Final Compounded Amount thereof.

Trust Office

The term "Trust Office" means the corporate trust office of the Trustee at the address set forth in the Indenture, or such other office designated by the Trustee from time to time.

Trustee

The term "Trustee" means such trustee as may be appointed by the Agency, and its successors and assigns, or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

Written Request

The term "Written Request" means an instrument in writing signed by the Chairman or the Executive Director of the Agency or the Authority or by any other officer of the Agency or the Authority duly authorized for that purpose.

Issuance of Additional Bonds

Conditions for the Issuance of Additional Bonds

The Agency may at any time after the issuance and delivery of the Series 2006 Bonds issue Additional Bonds payable from the Tax Revenues and secured by a lien and charge upon the Tax Revenues equal to and on a parity with the lien and charge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the following specific conditions.

(a) The Agency shall be in compliance with all covenants set forth in the Loan Agreements, 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 be permitted under the terms of the Loan Agreements and shall have been duly authorized pursuant to the Law and all applicable laws, and 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, which shall be on the same semiannual dates as the Interest Payment Dates for the Series 2006 Bonds; provided, that such Additional Bonds may provide for compounding of interest in lieu of payment of interest on such dates;

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

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

(7) The amount and due date of each mandatory 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) Tax Revenues (excluding any Pass-Through Payments) based upon the assessed valuation of taxable property in the Project Area as shown on the most recently equalized assessment roll preceding the date of the Agency's adoption of the Supplemental Indenture providing for the issuance of such Additional Bonds plus, at the option of the Agency, the Additional Allowance shall be in an amount equal to at least one hundred twenty-five percent (125%) of Maximum Annual Debt Service following the issuance of such Additional Bonds, as evidenced by a Consultant's Report.

For purposes of calculating Tax Revenues, a tax rate of \$1.00 per \$100 of assessed valuation shall be assumed and Tax Revenues shall be reduced by an amount equal to the product of then current property tax appeals of the ten largest property taxpayers times the average percentage of successful appeals of the ten largest property taxpayers for the preceding five years. In addition, in the event that the

County discontinues the “Teeter Plan” method of allocating tax collections, Tax Revenues shall be adjusted based on average tax delinquencies for the preceding five years.

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 the Trustee or an escrow agent (“Escrow Bonds”), provided that the Supplemental Indenture authorizing issuance of such Escrow Bonds shall provide that: (i) such proceeds shall be invested in Federal Securities which mature within three months of the escrow expiration date and which bear interest at a rate 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 Escrow Bonds; (ii) moneys may be transferred from said escrow fund only if Tax Revenues (as calculated using the criteria set forth above) for the then current Fiscal Year plus, at the option of the Agency, the Additional Allowance shall be at least equal to 1.25 times Maximum Annual Debt Service, less a principal amount of Bonds which is equal to moneys on deposit in such escrow fund after each such transfer; and (iii) such Escrow Bonds shall be redeemed at par from moneys remaining on deposit in such escrow fund at the expiration of the specified escrow period. In addition, the Agency shall obtain an opinion of nationally recognized bond counsel on the delivery date of such Escrow Bonds to the effect that such escrow of proceeds will not affect the exclusion of the interest on any Outstanding Bonds from gross income for federal income tax purposes.

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 the Tax Revenues and secured by a lien and charge on the Tax Revenues if, after the issuance and delivery of such tax allocation bonds, none of the Bonds theretofore issued 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; provided, however, that no such issuance shall cause the Agency to exceed any tax increment limit applicable to it under the Redevelopment Plan or the Law.

Tax Revenues; Creation of Funds

Pledge of Tax Revenues

All the Tax Revenues and all money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture, whether held by the Agency or the Trustee (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 Tax Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding, subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth in the Indenture. This pledge shall constitute a first lien on the Tax Revenues and such other money for the payment of the Bonds.

Special Fund; Receipt and Deposit of Tax Revenues; Debt Service Fund

The Indenture establishes a special fund known as the “Cloverdale Redevelopment Project Special Fund” (the “Special Fund”) held by the Agency. The Agency shall deposit all of the Tax Revenues received in any Bond Year in the Special Fund promptly upon receipt thereof by the Agency, until such time (if any) during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee for such Bond Year.

The Indenture establishes a fund known as the “Cloverdale Redevelopment Project Debt Service Fund” (the “Debt Service Fund”) to be held by the Trustee. On or before the fifth Business Day immediately preceding any Interest Payment Date, the Agency shall withdraw from the Special Fund and deposit with the Trustee the amount of money necessary to make the deposits required in the Indenture. After the deposits required by the Indenture have been made and upon notice from the Trustee, the Agency shall withdraw from the Special Fund and deposit with the Trustee the amount of money necessary to make any deposit required by the Indenture.

All Tax Revenues received by the Agency at any time during any Bond Year in excess of the amount required to be transferred to the Trustee during such Bond Year shall be released from the pledge and lien under the Indenture and the Agency may apply such excess Tax Revenues for any lawful purpose of the Agency. So long as any Bonds are outstanding, the Agency shall not have any beneficial right or interest in the moneys on deposit in the Special Fund or the Debt Service Fund, except as may be provided in the Indenture.

Redevelopment Fund

The Indenture establishes a fund to be held by the Agency called the “Cloverdale Redevelopment Project Redevelopment Fund” (the “Redevelopment Fund”). Moneys in the Redevelopment Fund will be used for the purpose of aiding in financing 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.

Housing Fund

The Indenture establishes a fund to be held by the Agency called the “Cloverdale Redevelopment Project Low and Moderate Income Housing Fund” (the “Housing Fund”). Moneys in the Housing Fund will be used for the purpose of increasing, improving or preserving the supply of low and moderate income housing within or of benefit to the Project Area.

Expense Fund

The Indenture establishes a fund known as the “Cloverdale Redevelopment Project Expense Fund” (the “Expense Fund”) to be held by the Trustee. All moneys in the Expense Fund will 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 earlier of 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) or 180 days after delivery of the Bonds to the original purchaser thereof, any balance remaining in such Expense Fund will be transferred to the Redevelopment Fund, and pending such transfer and application, the moneys in such Expense 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 will 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, in the following order of priority (except as otherwise provided in subsection (b) below):

- (1) Interest Account;

- (2) Principal Account;
- (3) Sinking Account; and
- (4) Reserve Account.

(a) Interest Account. On or before each Interest Payment Date, the Trustee will 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 such Interest Payment Date. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds on the Interest Payment Dates in such Bond Year. All moneys in the Interest Account will 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).

The Trustee will establish and maintain a subaccount within the Interest Account to be known as the "Series 2006 Capitalized Interest Subaccount." Moneys deposited in the Series 2006 Capitalized Interest Subaccount pursuant to the Indenture represent capitalized interest on the Series 2006 Bonds. Such moneys shall be transferred to the Interest Account to pay for interest due on the Series 2006 Bonds on the following Interest Payment Dates: February 1, 2007 and August 1, 2007.

(b) Principal Account. On or before each Principal Payment Date, the Trustee will 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 such Principal Payment Date. In the event that there is insufficient money in the Debt Service Fund to make in full all such principal payments and Sinking Account Installments required to be made in such Bond Year, then 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 upcoming Principal Payment Date. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal and redemption premium, if any, of the Serial Bonds as they shall become due and payable.

(c) Sinking Account. On or before each Principal Payment Date, the Trustee will set aside from the Debt Service Fund and deposit in the Sinking Account an amount of money equal to the Sinking Account Installment, if any, payable on the Sinking Account Payment Date in such Bond Year. All moneys in the Sinking Account will be used by the Trustee to redeem Term Bonds.

- (d) Reserve Account.

On or before each Interest Payment Date, the Trustee will set aside from the Debt Service Fund and deposit in the Reserve Account such amount of money (or other authorized deposit of security, as contemplated by the following paragraph) as shall be required to restore the balance in the Reserve Account to an amount equal to the Reserve Account Requirement for each Series of Bonds then Outstanding. Except as provided in the Indenture, 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 for each Series of Bonds then Outstanding. All money in (or available to) the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal

Account or the 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 the Series of Bonds to which such subaccount of the Reserve Account relates in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all Bonds then Outstanding, except that for so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Account Requirement may, upon Written Request of the Agency, be withdrawn from the Reserve Account by the Trustee and transferred to the Agency. In the event that there shall be insufficient money in the Debt Service Fund to make in full all required deposits to the subaccounts in the Reserve Account, then the money available in the Debt Service Fund shall be applied pro rata to such subaccounts in the proportion which all the Reserve Account Requirements for each Series bear to each other.

With the written consent of the Bond Insurer, if any, the Reserve Account Requirement may be satisfied by crediting to the Reserve Account moneys or a Qualified Reserve Account Credit Instrument or any combination thereof, which in the aggregate make funds available in the Reserve Account in an amount equal to the Reserve Account Requirement. Upon the deposit with the Trustee of such Qualified Reserve Account Credit Instrument, the Trustee shall release moneys then on hand in the Reserve Account to the Agency, to be used for any lawful purpose relating to the Project Area, in an amount equal to the face amount of the Qualified Reserve Account Credit Instrument.

(c) Surplus. After making the deposits referred to in paragraphs (a) through (d) above in any Bond Year, the Trustee will transfer any amount remaining on deposit in the Debt Service Fund to the Agency to be used for any lawful purpose of the Agency.

Investment of Moneys in Funds and Accounts

Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account, the Expense Fund (and any account therein) or the Rebate Fund will be invested by the Trustee in Authorized Investments. In the absence of such instructions the Trustee shall invest in the investments described in clause F of the definition of "Authorized Investments". The obligations in which moneys in the Debt Service Fund, the Interest Account, the Principal Account or any Sinking Account are so invested shall mature prior to the date on which such moneys are estimated to be required to be paid out. Any interest, income or profits from the deposits or investments of all funds (except the Expense Fund and Rebate Fund) and accounts will be deposited in the Debt Service Fund. For purposes of determining the amount on deposit in any fund or account, all Authorized Investments credited to such fund or account shall be valued monthly at the lower of cost or market value (excluding accrued interest and brokerage commissions, if any).

Amounts deposited in the Special Fund, the Redevelopment Fund and the Housing Fund may be invested in any obligations in which the Agency may lawfully invest its funds.

Covenants of the Agency

Punctual Payment

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

Against Encumbrances

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

Extension or Funding of Claims for Interest

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

Management and Operation of Properties

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

Payment of Claims

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

Records 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. 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 270 days after the close of each Fiscal Year, so long as any Bonds are Outstanding, an audited financial statement in reasonable detail relating to the Tax Revenues and all funds or accounts established pursuant to the Indenture for the preceding Fiscal Year along with the related opinion of an Independent Certified Public Accountant. The Agency will furnish a copy of such audited financial statement to any Owner upon written request and will distribute a reasonable number of copies thereof as may be required to investment bankers, security dealers and others interested in the Bonds.

Protection of Security and Rights of Owners

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

Payment of Taxes and Other Charges

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

Financing the Project

The Agency will continue 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.

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 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 and shall be deposited by the Agency in the Special Fund.

Disposition of Property in Project Area

Without the prior written consent of the Bond Insurer, if any, the Agency will not participate in the disposition of any land or real property in the Project Area which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way) if such disposition, when taken together with other such dispositions, would either (a) aggregate more than 10 percent of the assessed valuation of the property in the Project Area, or (b) cause the amount of Tax Revenues to be received in the succeeding Bond Year to fall below 125 percent of Combined Maximum Annual Debt Service.

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 approve such 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 the County.

Further Assurances

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

Tax Covenants; Rebate Fund

For the purposes of the Indenture, the term "Tax-Exempt Bonds" means all of the Outstanding Bonds, except for those of any Series 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. The tax covenants shall not apply to any Series of Bonds that are not Tax-Exempt Bonds.

The Trustee shall establish and maintain with respect to each Series of Bonds issued under the Indenture (other than any Series of Bonds exempt from the requirements of Section 148 of the Code related to rebate of arbitrage earnings as shall be specified in writing to the Trustee by the Agency) a fund separate from any other fund or account designated as the "Series ___ Rebate Fund" hereinafter referred to as the "Rebate Fund." 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 Special 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 this covenant and by the Tax Certificate. 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.

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 or "federally guaranteed" within the meaning of Section 149(b) of the Code and any such applicable requirements promulgated from time to time under that Section 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.

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.

Agreements with Taxing Agencies; Other Agreements

So long as any Bonds are Outstanding, the Agency shall not (a) enter into any new agreement, or amend any existing agreement, with any taxing agency entered into (i) pursuant to Section 33401 of the Law or (ii) which operates as a waiver of the Agency's right to receive Tax Revenues under the Redevelopment Plan, or (b) enter into any disposition, development, owner participation or other agreement, or amend any existing agreement, which requires the Agency to make payments from Tax

Revenues, 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.

Annual Review of Tax Revenues

The Agency has covenanted that it will annually calculate, not later than December 31 of each year, the total amount of Tax Revenues remaining available to be received by the Agency under the Redevelopment Plan's cumulative tax increment limitation, as well as future cumulative Annual Debt Service. The Agency will not accept Tax Revenues greater than Annual Debt Service, in any year, if such acceptance will cause the amount remaining under the tax increment limit to fall below remaining cumulative Annual Debt Service, except for the purpose of depositing such revenues in escrow for the payment of interest on and principal of and redemption premiums, if any, on the Bonds.

Housing Fund

The Agency has covenanted and agreed to use the moneys in the Housing Fund in accordance with the Law, and disburse, expend or encumber any "excess surplus" (as defined in the Law) in the Housing Fund at such times and in such manner that the Agency will not be subject to sanctions pursuant to the Law.

Amendment of the Indenture

Amendment by Consent of Owners

The Indenture and the rights and obligations of the Agency and of the Owners may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, 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 in the Indenture of any Bond, without the express written consent of the Owner of such Bond, or (2) permit the creation by the Agency of any mortgage, pledge or lien upon the Tax Revenues superior to or on a parity with the pledge and lien created in the Indenture for the benefit of the Bonds, 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 other covenants and agreements to the Indenture, or to surrender any right or power reserved to or conferred upon the Agency;
- b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in regard to questions arising under the Indenture, as the Agency may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the 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 the Indenture;
- d) To modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;
- e) To maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes (except with respect to any Bonds which the Agency certifies to the Trustee are not intended to qualify for such exclusion);
- 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 City will not be deemed Outstanding for the purpose of any consent or other action in the Indenture provided for, and will not be entitled to consent to, or take any other action in the Indenture provided for; provided, however, that for purposes of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned or held will be disregarded.

Events of Default and Remedies of Owners

Events of Default and Acceleration of Maturities

The following are "Events of Default":

- (a) Default 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) Default in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;
- (c) Default 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 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) Filing by the Agency of 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 approval by a court of competent jurisdiction of 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 the assuming, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of 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 a majority 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 interest which would have been paid on such overdue principal 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 a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences; 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 (other than the Rebate Fund) upon the date of the declaration of acceleration by the Trustee, 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 costs and expenses of the Trustee, if any, in carrying out the provisions of the Indenture, including reasonable compensation to its agents and counsel, to the payment of any other amounts then due and payable to the Trustee, including any predecessor trustee, with respect to or in connection with the Indenture, whether as compensation, reimbursement, indemnification or otherwise, and, thereafter, to the payment of the costs and expenses of the Owners in providing for the declaration of such Event of Default, including reasonable compensation to their agents 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 percent (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, 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

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 or the Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Law or by the Indenture may be enforced and exercised from time to time and as often as 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 may 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 the 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 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 hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law, subject to the provisions of the Indenture.

Owners' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding 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 hereinbefore 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.

Defeasance

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 at the Written Request of the Agency, and at the expense of the Agency, and deliver to the Agency all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall, after payment of amounts due the Trustee, pay over or deliver to the Agency all money or securities held by it pursuant to the Indenture which are

not required for the payment of the interest due on and the principal of and premium, if any, due on 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 Indenture.

Any Outstanding Bonds shall prior to the maturity date thereof be deemed to have been paid only if there shall have been deposited with the Trustee, or another fiduciary or escrow agent, either money in an amount which shall be sufficient, or Defeasance Obligations (including any Defeasance Obligations 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 or such earlier redemption date as shall be irrevocably established, and the principal of and redemption premium, if any, on such Bonds (the sufficiency of such amounts to be appropriately verified by an Independent Certified Public Accountant) and (2) the Agency shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (1) above has been made with the Trustee and that such Bonds are deemed to have been paid and stating the maturity date or earlier redemption date upon which money is to be available for the payment of the principal of such Bonds.

Miscellaneous

Liability of Agency Limited to Tax Revenues

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 City of Cloverdale, the State of California or any of its political subdivisions, and neither said City, said State nor any of its political subdivisions is liable therefor, nor in any event 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.

Bond Insurer

The Indenture sets forth procedures for payment under the Bond Insurance Policy and certain rights of the Bond Insurer, including the right to direct all remedies following an Event of Default.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate"), dated as of August 1, 2006, is executed and delivered by The Community Development Agency of the City of Cloverdale (the "Agency") in connection with the execution and delivery of its \$21,465,000 aggregate principal amount of Tax Allocation Refunding Bonds, Series 2006 (Cloverdale Redevelopment Project) (the "Bonds"). The Bonds are being issued pursuant to an Indenture dated as of August 1, 2006 (the "Indenture"), by and between the Agency and The Bank of New York Trust Company, as trustee. The Agency covenants and agrees as follows:

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

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

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the Executive Director of the Agency or his or her designee, or such other officer or employee as the Agency shall designate in writing to the Dissemination Agent (if other than the Agency) from time to time.

"Dissemination Agent" shall mean Urban Futures, Inc., 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 Agency a written acceptance of such designation.

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

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

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

"Repository" shall mean each National Repository and each State Repository.

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

“State” shall mean the State of California.

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

SECTION 3. Provision of Annual Reports.

(a) The Agency shall, or shall cause the Dissemination Agent to, not later than March 15 of each year, commencing March 15, 2007, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. If the Agency’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (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 to the Dissemination Agent (if other than the Agency). The Agency shall provide, or cause the preparer of the Annual Report to provide, a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Report.

(c) If the Agency is unable to provide to Repositories an Annual Report by the date required in subsection (a), the Agency shall send a notice to each Repository or to the Municipal Securities Rulemaking Board and the 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 the State Repository, if any; and

(ii) to the extent information is known to it, file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Agency Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Agency, prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided in Section 3 above, financial information and operating data with respect to the Agency for the preceding fiscal year, substantially similar to that provided in TABLE NOS. 1 through 5 in the section of the Official Statement for the Bonds entitled "TAX INCREMENT REVENUES."

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

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

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

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

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

SECTION 7. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Agency.

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

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

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

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

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

(e) In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Agency shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Agency.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this 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 to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under this Disclosure Certificate. A default under this Disclosure

Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to the Agency or the Dissemination Agent may be given as follows:

To the Agency: The Community Development Agency of the City of Cloverdale
124 N. Cloverdale Blvd.
Cloverdale, California 95425
Attention: Executive Director
Fax: (909) 894-3451

To the Dissemination Agent: Urban Futures, Inc.
3111 North Tustin Avenue, #230
Orange, CA 92865
Attention: Marshall Linn, President
Fax: (714) 283-9319

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE

By: _____
Executive Director

AGREED AND ACCEPTED:

URBAN FUTURES, INC., as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: The Community Development Agency of the City of Cloverdale

Name of Bonds: \$21,465,000
The Community Development Agency of the City of Cloverdale
Tax Allocation Refunding Bonds, Series 2006
(Cloverdale Redevelopment Project)

Date of Delivery: August 24, 2006

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of August 1, 2006, with respect to the Bonds. [The Agency anticipates that the Annual Report will be filed by _____.]

Dated: _____

**THE COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF CLOVERDALE**

By _____

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds: DTC’s records reflect only the

identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Principal, redemption price (if any) and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on each payment date in accordance with their holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of 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 depository with respect to the Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Bond certificates are required to be printed and delivered.

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

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

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or interest coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and therefore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Peadar
President



Anne G. Gill
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Noranda L. Laro

Authorized Officer of Insurance Trustee



Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President



Secretary

Authorized Representative

Form No.: 28-0004 (7/97)