

Insured Rating:
Standard & Poor's: "AAA"
Underlying Rating:
Standard & Poor's: "A"
(See "RATINGS" herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. See "TAX MATTERS" herein.

County of Riverside

State of California

\$10,665,000
CITY OF MORENO VALLEY
TOWNGATE COMMUNITY FACILITIES DISTRICT NO. 87-1
2007 SPECIAL TAX REFUNDING BONDS

Dated: Date of Delivery

Due: December 1, as shown on inside cover

The City of Moreno Valley Towngate Community Facilities District No. 87-1 2007 Special Tax Refunding Bonds (the "Bonds") are being issued and delivered to (i) refund the \$14,170,000 City of Moreno Valley Towngate Community Facilities District No. 87-1, 1994 Special Tax Refunding Bonds currently outstanding in the principal amount of \$10,170,000, (ii) refund the \$8,530,000 City of Moreno Valley Towngate Community Facilities District No. 87-1, 1994 Special Tax Refunding Bonds, Series B currently outstanding in the principal amount of \$2,340,000, (iii) fund the reserve requirement for the Bonds, and (iv) pay the costs related to the issuance of the Bonds. Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, County of Riverside, State of California (the "District") has been formed by the City of Moreno Valley (the "City") and is located in the City of Moreno Valley, Riverside County, California.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and are being issued pursuant to that certain Bond Indenture, dated as of October 1, 2007 (the "Indenture"), by and between the District and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) levied on and collected from the owners of the taxable property within the District and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the qualified electors within the District. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes" herein.

The Bonds are issuable 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"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. See APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" herein.

Principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See "THE BONDS—Description of the Bonds" and APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" herein.

Interest on the Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2008.

Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the Community Redevelopment Agency of the City of Moreno Valley or general obligations of the District but are limited obligations of the District payable solely from Special Taxes and certain other amounts held under the Indenture as more fully described herein.

The scheduled payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

Ambac

The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption prior to maturity as described herein. See "THE BONDS—Redemption" herein.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds.

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the Underwriter by its Counsel, Best Best & Krieger LLP and for the Agency, the City and the District by Robert D. Herrick, Moreno Valley, California, City Attorney. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about November 29, 2007.



\$10,665,000 BONDS

Base CUSIP^{®†} No.: 616865

<i><u>Maturity</u></i> <i><u>December 1</u></i>	<i><u>Principal</u></i> <i><u>Amount</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Yield</u></i>	<i><u>CUSIP^{®†}</u></i> <i><u>No.</u></i>	<i><u>Maturity</u></i> <i><u>December 1</u></i>	<i><u>Principal</u></i> <i><u>Amount</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Yield</u></i>	<i><u>CUSIP^{®†}</u></i> <i><u>No.</u></i>
2008	\$575,000	4.00%	3.30%	ED9	2016	\$790,000	5.000%	3.80%	EM9
2009	600,000	5.00	3.32	EE7	2017	830,000	5.000	3.88	EN7
2010	630,000	3.75	3.35	EF4	2018	120,000	3.875	4.02	EP2
2011	655,000	3.50	3.41	EG2	2018	750,000	5.000	3.95 ^(c)	EQ0
2012	680,000	3.50	3.47	EH0	2019	910,000	4.000	4.12	ER8
2013	700,000	3.75	3.56	EJ6	2020	950,000	4.000	4.21	ES6
2014	730,000	4.00	3.64	EK3	2021	985,000	4.125	4.30	ET4
2015	760,000	4.00	3.72	EL1					

(c) Yield to optional prepayment date of December 1, 2017 at par.

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**CITY OF MORENO VALLEY
COUNTY OF RIVERSIDE
STATE OF CALIFORNIA**

CITY COUNCIL

Charles R. White, Mayor
William H. Batey II, Mayor Pro Tem
Bonnie Flickinger, Council Member
Richard A. Stewart, Council Member
Frank West, Council Member

CITY OFFICIALS

Robert G. Gutierrez, City Manager
Robert D. Herrick, City Attorney
Rick C. Hartmann, Deputy City Manager
Steven M. Chapman, Finance Director/City Treasurer
Chris A. Vogt, P.E., Public Works Director/City Engineer
Sue Maxinoski, Special Districts Division Manager
Barry Foster, Economic Development Director
Mitch Slagerman, Redevelopment Manager
Alice Reed, City Clerk

BOND COUNSEL

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Newport Beach, California

FINANCIAL ADVISOR

Ross Financial
San Francisco, California

FISCAL CONSULTANT

DHA Consulting
Long Beach, California

VERIFICATION AGENT

Grant Thornton, LLP
Minneapolis, Minnesota

TRUSTEE

Wells Fargo Bank, National Association
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the District, the City and the Community Redevelopment Agency of the City of Moreno Valley (the "Agency"). No dealer, broker, salesperson or other person has been authorized by the District, the City, the Agency, the Trustee or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the City, the Agency, the Trustee 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 or Owners 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 representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the District, the City or the Agency. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District, the City or the Agency or any other parties described herein since the date hereof. All summaries of the Indenture or 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 City, on behalf of the District, or the Agency for further information in connection therewith.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

All the information for investors regarding the City, the District, the Agency and the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the City, the Agency, or the District.

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INLAND EMPIRE



\$10,665,000
CITY OF MORENO VALLEY
TOWNGATE COMMUNITY FACILITIES DISTRICT NO. 87-1
2007 SPECIAL TAX REFUNDING BONDS

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance of the \$10,665,000 City of Moreno Valley Towngate Community Facilities District No. 87-1, 2007 Special Tax Refunding Bonds (the “Bonds”). The proceeds of the Bonds will be used to: (i) refund the \$14,170,000 City of Moreno Valley Towngate Community Facilities District No. 87-1, 1994 Special Tax Refunding Bonds, Series A currently outstanding in the principal amount of \$10,170,000 (the “Prior Series A Bonds”), (ii) refund the \$8,530,000 City of Moreno Valley Towngate Community Facilities District No. 87-1, 1994 Special Tax Refunding Bonds, Series B currently outstanding in the principal amount of \$2,340,000 (the “Prior Series B Bonds” and, together with the Prior Series A Bonds, the “Prior Bonds”), (iii) fund the reserve requirement for the Bonds, and (iv) pay the costs related to the issuance of the Bonds, including without limitation payment of the premium for a municipal bond insurance policy insuring scheduled payments of principal of and interest on the Bonds.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and are being issued pursuant to a Bond Indenture by and between Community Facilities District No. 87-1 (Towngate) of the City of Moreno Valley, County of Riverside, State of California (the “District”) and Wells Fargo Bank, National Association (the “Trustee”), dated as of October 1, 2007 (the “Indenture”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined therein) and all moneys on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account therein).

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in this entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of the Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined herein shall have the meanings set forth in APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

The District

Under the Act, the legislative body of a local agency is authorized to establish a community facilities district and act as the legislative body for the district. Subject to approval by a two-thirds vote of the qualified electors voting, and compliance with the applicable provisions of the Act, the Governing Board (defined below) may authorize the issuance of bonds and the levy and collection of a special tax within such a district to repay the bonds and to pay for certain services permitted under the Act.

Pursuant to the Act, pursuant to Resolution No. 87-99 adopted by the City Council on October 20, 1987, and Resolution No. 88-13 adopted April 13, 1988, the District was formed and bonded indebtedness in an aggregate principal amount not to exceed \$21,000,000 and a Rate and Method of Apportionment of Special Tax (the “Rate and Method”) for the District were authorized pursuant to the Act for approval of those matters. The qualified electorate of the District voted in favor of the incurrence of bonded indebtedness and levy of a special tax on real property within the District to pay the principal and interest on bonds, to pay for specified public facilities, to pay administrative expenses of the District, and to make any replenishment to the Reserve Account established under the Indenture. A Notice of Special Tax Authorization was recorded in the Official Records of Riverside County on November 20, 1987 as Document No. 333039. On November 24, 1987 the

City Council, acting as the legislative body of the District (the “Governing Board”), declared the results of the election by adoption of its Resolution 87-115. Ordinance No. 151, an Ordinance Levying Special Taxes on property within the District, was adopted and became effective on January 7, 1988. On April 20, 1988, the City of Moreno Valley Towngate Community Facilities District No. 87-1, Special Tax Bonds, Series A dated April 12, 1988 were issued and on August 14, 1991, the City of Moreno Valley, Towngate Community Facilities District No. 87-1, Special Tax Bonds, Series B dated August 2, 1991 (collectively, the “Original Bonds”) were issued. In June, 1994, the Original Bonds were refunded by the Prior Bonds. The Bonds, together with certain moneys held by the trustee for the Prior Bonds, will refund the remaining outstanding amount of the Prior Bonds.

The District boundaries encompass a total of approximately 254.28 gross acres of which approximately 247.95 are net taxable acres. Special taxes within the District boundaries are based upon acreage. See “THE COMMUNITY FACILITIES DISTRICT—Location” herein.

By the adoption of Resolution No. 2007-119 on October 23, 2007, the Governing Board authorized the issuance of the Bonds.

Taxable Property Values

As of January 1, 2007 (the most recent date for which assessed values are available), the assessed value for taxable property (secured and unsecured) of Developed Property within the District was \$314,898,300 (the “Assessed Value”). This results in an average assessed value-to-lien ratio of approximately 22 to 1 based on the principal amount of the Bonds and the principal amount of “Improvement Area Bonds,” as defined below. See discussion under the headings “THE COMMUNITY FACILITIES DISTRICT—Estimated Assessed Value-to-Lien Ratios” and “—Designation of the Improvement Area; Improvement Area Bonds” herein.

The Development; the Amended Cooperation Agreement

On November 3, 1987, the Community Redevelopment Agency of the City of Moreno Valley (the “Agency”) and RIR Associates, a California general partnership (“RIR Associates”) entered into the Moreno Valley Redevelopment Project Moreno Valley Mixed Use Development Participation Agreement, dated November 3, 1987 (the “Owner Participation Agreement”), relating to the development of an approximately 590-acre area (the “TownGate Development Property”) with commercial, residential and other uses (the “TownGate Development”). In furtherance of its obligations set forth in the Owner Participation Agreement, the Agency and the City, on behalf of itself and the District, entered into a Cooperation and Reimbursement Agreement, dated November 4, 1987 (the “Initial Cooperation Agreement”). The Owner Participation Agreement and the Initial Cooperation Agreement have been amended by a First Amendment to Cooperation and Reimbursement Agreement dated as of June 1, 1994 (the “First Amendment” and, together with the Initial Cooperation Agreement, the “Amended Cooperation Agreement”). The Amended Cooperation Agreement provides for certain payments to be made by the Agency to the District from tax increment revenues generated from a portion of the Project Area to be available for payment of payments of principal and interest on the Bonds.

The Agency has subsequently entered into an agreement with the City of Moreno Valley on behalf of the District, dated as of October 1, 2007 and entitled “Agency Towngate Agreement” under which the Agency has agreed to make payments to the District derived from tax increment revenues from the Project Area sufficient to pay all scheduled principal and interest due with respect to the Bonds. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.”

The District consists of approximately 254.28 gross acres, of which approximately 247.95 acres are net taxable developable acres, representing approximately half of the TownGate Development at its northern boundaries. Development on the District includes the TownGate Community Shopping Center, the TownGate

Plaza and a regional shopping mall, Moreno Valley Mall at TownGate (the “Mall”). See discussion under the heading “THE COMMUNITY FACILITIES DISTRICT—Development Within the District.”

The City

The City of Moreno Valley (the “City”) encompasses approximately 50.6 square miles. As of January 1, 2007, the City had a population of approximately 180,466. The City is located approximately 65 miles east of the City of Los Angeles, in proximity to California Route 60 and Interstate 215. Incorporated on December 3, 1984, the City operates as a general law city under California law. The City has a council-manager form of government, with the Mayor and four Council members elected by district for overlapping four-year terms.

Security for the Bonds

Net Taxes. As used in this Official Statement, the term “Special Tax” is that tax which has been authorized pursuant to the Act to be levied against taxable property within the District pursuant to the Act and in accordance with the Rate and Method. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Under the Indenture, the District has pledged to repay the Bonds from Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and from amounts on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account therein) established under the Indenture. Net Taxes are security for the repayment of the Bonds.

Agency Payments. The Agency and the City have entered into an agreement dated as of October 1, 2007, entitled “Agency Towngate Agreement” (the “Agency Towngate Agreement”) under which the Agency will make certain payments to the District, as set forth in the Agency Towngate Agreement, in an amount sufficient to make all scheduled principal and interest payments on the Bonds; see discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.”

Limited Obligations. The Bonds, the interest thereon, and any premiums payable on the redemption of any thereof, are not an indebtedness of the District, the City, the State or any of its political subdivisions, and neither the District, the City, the State nor any of its political subdivisions is liable on the Bonds, nor in any event shall said Bonds or interest be payable out of any funds or properties other than those of the District as set forth in the Indenture. Neither the members of the District or the Legislative Body of the City, nor the officials, employees and agents of the District or the City, nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Foreclosure Proceedings. The District has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against Assessor’s parcels with delinquent Special Taxes in excess of \$1,000 by the December 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence and diligently pursue to completion judicial foreclosure proceedings against all Assessor’s parcels with delinquent Special Taxes by the December 1 following the close of any fiscal year in which it receives Special Taxes in an amount which is less than 90% of the total Special Tax levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales.” See also discussion under the heading “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Debt” and “—Estimated Assessed Value-to-Lien Ratios” herein. There is no assurance that the property within the District can be sold for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the District. See discussion under the heading “SPECIAL RISK FACTORS—Property Values” herein.

EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES, CERTAIN AMOUNTS HELD UNDER THE INDENTURE AND CERTAIN PAYMENTS BY THE AGENCY, AS MORE FULLY DESCRIBED HEREIN. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.”

Description of the Bonds

The Bonds in the aggregate principal amount of \$10,665,000 are authorized to be issued by the District under and subject to the terms of the Indenture, the Act and other applicable laws of the State of California. The Bonds will be issued as fully registered bonds, without coupons, in book-entry form in the denominations of \$5,000 or any integral multiple thereof.

Payments. Interest on the Bonds accrues from the date of delivery of the Bonds at the rates set forth on the inside cover page hereto, and is payable semi-annually on each June 1 and December 1, commencing June 1, 2008. The principal amount of the Bonds is payable at maturity upon surrender of the Bonds for payment.

Registration. The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the denominations set forth on the cover page hereof, under the book-entry only system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See APPENDIX E—“DTC AND THE BOOK-ENTRY SYSTEM” herein.

Redemption. The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption prior to maturity. See discussion under the heading “THE BONDS—Redemption” herein.

The District will permit property owners to discharge their Special Tax obligation by paying off such obligation in cash as described in APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Tax Matters

In the opinion of Bond Counsel, under existing law, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants set forth in the Indenture described herein, is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Set forth in Appendix D is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain tax consequences incident to the ownership of the Bonds, see “TAX MATTERS” herein.

Professionals Involved in the Offering

Wells Fargo Bank, National Association, Los Angeles, California, will act as Trustee under the Indenture and as Escrow Bank an escrow agreement dated as of October 1, 2007 by and between the District and Wells Fargo Bank, National Association as escrow bank (“Escrow Bank”) thereunder (the “Escrow Agreement”). Wells Fargo Bank, National Association will act as the initial Dissemination Agent under the Continuing Disclosure Agreement to be executed by the District. The legal proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP and for the Agency, the City and the District by Robert D.

Herrick, City Attorney and General Counsel. Other professional services have been performed by Ross Financial, San Francisco, California, as Financial Advisor, DHA Consulting, Long Beach, California, as Fiscal Consultant, and Grant Thornton, LLP, as Verification Agent.

For information concerning respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see “FINANCIAL INTERESTS” herein.

Continuing Disclosure

The District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain financial information and operating data on an annual basis. The District has further agreed to provide, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5). See discussion under the heading “CONTINUING DISCLOSURE” herein and Appendix C hereto for a description of the specific nature of the annual reports to be filed by the District and notices of material events and a copy of the continuing disclosure agreements pursuant to which such annual reports are to be made. The District has never failed to comply with Rule 15c2-12 in any of its previous undertakings.

Bond Owners’ Risks

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

Other 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 are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bonds and the constitution and laws of the State as well as the proceedings of the Governing Board, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

Copies of the Indenture, the Continuing Disclosure Agreement, the Escrow Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the City at 14177 Frederick Street, Moreno Valley, California 92552-0805, Attention: Executive Director.

Changes Since Date of Preliminary Official Statement

This Official Statement includes changes since the date of the Preliminary Official Statement as follows: (i) the discussion under the heading “RATINGS,” and now referenced under the heading “SPECIAL RISK FACTORS,” has been modified to add language concerning the updating by Standard & Poor’s Ratings Services of its analysis of the collateralized debt obligations of asset-backed securities insured by the financial guaranty industry as well as the potential implications for its ratings on various municipal bond insurers; (ii) at Table 1, the last column on the right has been modified to reflect the Ratio of Projected Net Tax Revenue to

Scheduled Principal and Interest on the Bonds and numbers under the column heading “Less Debt Service, Certain Obligations” have been revised to reflect final pricing of the Improvement Area Bonds; (iii) at Table 6, the column designed “Proportionate Amount of Improvement Area Bonds” and footnote 4 have been revised to reflect final pricing of the Improvement Area Bonds; and (iv) at Table 6, various corrections have been made as to acreage, percentage of total levy, assumed value and amount of special fiscal year 2007-08 special tax levy, but the totals for each of the columns “Number of Taxable Acres,” “Fiscal Year 2007-08 Assessed Value,” “Fiscal Year 2007-08 Special Tax Levy” and “Percentage of Total Levy” remain the same.

REFUNDING PLAN

The Bonds are being issued to (i) refund the Prior Bonds currently outstanding in the aggregate principal amount of \$12,510,000 (consisting of \$10,170,000 outstanding principal amount of 1994A Bonds and \$2,340,000 outstanding principal amount of 1994B Bonds), (ii) fund the Reserve Account in an amount equal to the Reserve Requirement, and (iii) pay costs of issuance.

Pursuant to the Escrow Agreement by and between the District and Wells Fargo Bank, National Association, as Escrow Bank, a portion of the proceeds of the Bonds together with funds held by the trustee for the Prior Bonds shall be deposited into the Escrow Fund established thereunder. Moneys in the Escrow Fund, together with interest earnings thereon, will be in an amount necessary to pay when due the regularly scheduled principal of and interest on: (i) the Prior Series A Bonds through December 1, 2007, and on December 1, 2007 pay the redemption price of the remaining outstanding principal amount of the Prior Series A Bonds, and (ii) the Prior Series B Bonds through December 1, 2007, and on December 1, 2007 pay the redemption price of the remaining outstanding principal amount of the Prior Series B Bonds. Moneys on deposit in the Escrow Fund will be invested by the Escrow Bank in Federal Securities or held uninvested in cash, all as further provided in the Escrow Agreement. Upon the issuance of the Bonds, Grant Thornton, LLP, will deliver a report verifying the sufficiency of the moneys deposited in the Escrow Fund. See discussion under the heading “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected uses of Bond proceeds:

<u>Sources of Funds</u>	<i>Bonds</i>
Principal Amount of Bonds	\$ 10,665,000.00
Net Original Issue Premium	234,584.30
Transferred Moneys ⁽¹⁾	<u>3,442,792.64</u>
TOTAL SOURCES	<u>\$ 14,342,376.94</u>
<u>Uses of Funds</u>	
Escrow Fund	\$ 12,891,225.00
Reserve Account	1,028,681.26
Costs of Issuance ⁽²⁾	<u>422,470.68</u>
TOTAL USES	<u>\$ 14,342,376.94</u>

⁽¹⁾ Funds transferred with respect to the Prior Bonds.
⁽²⁾ Includes the premium for a policy of financial guaranty insurance, Underwriter’s discount, legal fees, Trustee fees, financial advisor fees, costs of printing and rounding amount.

THE BONDS

Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of DTC. Interest, principal and premium, if any, on the Bonds is payable by the Trustee to DTC. DTC is responsible for disbursing such payments to the Beneficial Owners in accordance with the DTC book-entry only system. See APPENDIX E—“DTC AND THE BOOK-ENTRY SYSTEM” attached hereto.

Interest on the Bonds accrues from the date of delivery of the Bonds, and is payable Semi-Annually on June 1 and December 1 of each year (each an “Interest Payment Date”), commencing June 1, 2008, at the annual interest rates shown on the inside cover of this Official Statement. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. Interest will accrue on the Bonds on the basis of a 360-day year comprised of twelve 30-day months. See the Maturity Schedule on the inside cover and discussion under the heading “THE BONDS—Debt Service Schedule for the Bonds” herein.

Interest on any Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Interest will be paid by check of the Trustee mailed on each Interest Payment Date by first class mail, postage prepaid, to the Bondowner at its address on the registration books. Pursuant to a written request prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States. Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking fund redemption as described herein. For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” and APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

Redemption

Optional Redemption. The Bonds maturing on or before December 1, 2017, are not subject to optional redemption prior to their maturity dates. The Bonds maturing on or after December 1, 2018 may be redeemed before maturity at the option of the District, from any source of funds, on any date on or after December 1, 2017 as a whole, or in part by lot from such maturities as are selected by the District from any source of available funds, at par without premium. Bonds will be deemed to consist of \$5,000 portions, and any such portion may be separately redeemed.

Extraordinary Mandatory Redemption. The Bonds are subject to extraordinary redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Trustee, from prepayments of Special Taxes deposited to the Redemption Account plus amounts transferred from the Reserve Account (see “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund”), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
Interest Payment Dates prior to December 1, 2017	103%
Interest Payment Dates on or after December 1, 2017	100

The Rate and Method permits landowners within the District to prepay all or a portion of their Special Tax obligation under certain circumstances. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX—Payoff of Special Tax Obligation.”

Notice of Redemption. So long as the Bonds are held in book-entry form, notice of redemption will be mailed by the Trustee to DTC and not to the Beneficial Owners of the Bonds under the DTC book-entry only system. Neither the District nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See APPENDIX E—“DTC AND THE BOOK-ENTRY SYSTEM” herein. The Trustee is obligated to mail, at least 30 days but not more than 60 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the respective registered Owners of the Bonds at the addresses appearing on the Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Trustee.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for the redemption of the Bonds called for redemption is set aside for that purpose in the Redemption Account or the Principal Account, the Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the Bonds at the place specified in the notice of redemption, and no interest will accrue on the Bonds called for redemption from and after the redemption date, and the Owners of the redeemed Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such Bonds or portions of Bonds only to the Redemption Account or the Principal Account, as applicable, and shall have no rights, except with respect to the payment of the redemption price from the Redemption Account.

Registration, Transfer and Exchange

Registration. The Trustee will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Trustee.

Transfer or Exchange. Whenever any Bond is surrendered for registration of transfer or exchange, the Trustee will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Trustee will not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

Debt Service Schedule for the Bonds

The following is the scheduled debt service for the Bonds. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part which may result in extraordinary mandatory redemption of the Bonds. See “THE BONDS—Redemption.”

<i>Year Ending (December 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Annual Debt Service</i>
2008	\$ 575,000	\$ 449,866.71	\$ 1,024,866.71
2009	600,000	424,381.26	1,024,381.26
2010	630,000	394,381.26	1,024,381.26
2011	655,000	370,756.26	1,025,756.26
2012	680,000	347,831.26	1,027,831.26
2013	700,000	324,031.26	1,024,031.26
2014	730,000	297,781.26	1,027,781.26
2015	760,000	268,581.26	1,028,581.26
2016	790,000	238,181.26	1,028,181.26
2017	830,000	198,681.26	1,028,681.26
2018	870,000	157,181.26	1,027,181.26
2019	910,000	115,031.26	1,025,031.26
2020	950,000	78,631.26	1,028,631.26
2021	985,000	40,631.26	1,025,631.26
TOTAL	<u>\$ 10,665,000</u>	<u>\$ 3,705,948.09</u>	<u>\$ 14,370,948.09</u>

Additional Bonds

Pursuant to the Indenture, excepting for parity bonds issued to refund all or a portion of the Bonds, no additional bonds may be issued, payable from the Special Tax revenues or amounts in the funds and accounts established under the Indenture. No parity bonds are outstanding. See APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Indenture and from no other sources.

Net Taxes are security for the repayment of the Bonds. Under the Indenture, the District has pledged to repay the Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of annual Administrative Expenses of up to the Administrative Expenses Cap) and amounts on deposit in the Special Tax Fund (other than amounts held in the Administrative Expenses Account therein). Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments thereof, the net proceeds of the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, and penalties and interest thereon. The Indenture provides that such moneys as the District receives from the Agency as Agency Towngate Agreement Amounts will be deposited into the Special Tax Fund and will be applied for the repayment of the Bonds.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expenses Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Owners of the Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET TAXES AND OTHER AMOUNTS PLEDGED UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.”

Special Taxes

Authorization and Pledge. At a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$21,000,000. See discussion under the heading “INTRODUCTION—The District.”

The District has covenanted in the Indenture that each year it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein), including without limitation amounts paid under the Agency Towngate Agreement, to pay the principal of and interest on any Outstanding Bonds to which the Special Taxes are pledged, to replenish the Reserve Account and to pay the estimated Administrative Expenses.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” hereto. There is no assurance that the Special Tax proceeds or Net Taxes will, in all circumstances, be adequate to pay the principal of and interest on the Outstanding Bonds when due. See discussion under the heading “SPECIAL RISK FACTORS—Insufficiency of Special Taxes” herein.

Rate and Method of Apportionment of Special Tax. All capitalized terms used in this section shall have the meaning set forth in Appendix A.

The Rate and Method provides that Special Tax will be levied on and collected from each parcel in the District subject to the Special Tax as set forth in the Rate and Method, the complete text of which is contained in APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Under the Rate and Method, the Special Tax is to be levied each fiscal year on all non-exempt taxable property and when collected will be used to pay Bond principal and interest, administrative costs, and to replenish the Reserve Account. Special Taxes will be calculated each year and the amount levied on each parcel will be dependent on the amount of Bonds Outstanding and the cost of administration of the District. Notwithstanding the Rate and Method, it is anticipated that all moneys necessary to pay the debt service on the Bonds will consist of moneys disbursed to the District by the Agency as payments by the Agency under the Agency Towngate Agreement. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.”

Under the Rate and Method, the maximum amount of Special Taxes applicable to Developed Property is \$11,500 per net acre. The Rate and Method provides that Special Taxes are first to be applied as to Developed Property up to the amount of the maximum tax and then, to the extent necessary, to Undeveloped Property. The maximum amount of special taxes applicable to undeveloped property is \$11,500 per net acre. As of June 30, 2007, there are approximately 202.34 Developed net acres and approximately 45.61 Undeveloped net acres in the District. If the maximum tax rate were applied to all Developed Property in the District, the total special taxes levied potentially achievable thereunder for the period commencing December 2, 2005 and ending December 1, 2006 would have been \$2,326,910; if the maximum tax rate were applied to Undeveloped Property, an additional \$524,515 would result, for a combined total of \$2,851,421. By way of

comparison, scheduled debt service on the Prior Bonds was \$1,931.356 during the period commencing December 2, 2005 and ending December 1, 2006.

Taxable Property. The Taxable Property of the District consists of approximately 247.95 acres, and includes approximately 7,677,450 square feet of commercial development and approximately 1,135,480 square feet comprised of apartment units; see further discussion under the heading “THE COMMUNITY FACILITIES DISTRICT—Development Within the District.”

The City has the power and as such is obligated to levy and collect the Special Tax according to the Rate and Method which the District and the eligible landowner electors within the District have approved. The Special Tax formula apportions the total debt service requirement (principal, interest, administrative expenses, and restoration of the Bond Reserve Account, if required) each year and takes into account the availability of other revenues. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.”

The City has covenanted in the Indenture to levy the Special Tax for collection in each fiscal year so as to generate that amount of Special Tax revenues which, when combined with:

1. Those amounts received by the District from the Agency with respect to such Fiscal Year as “Agency Towngate Agreement Amounts” (as defined below); and
2. All funds on deposit in the Special Tax Fund and available for the payment of Annual Debt Service payable, will yield an amount adequate to pay:
 - a) Annual Debt Service on the Bonds,
 - b) Replenishment of the Reserve Account to the Reserve Requirement, and
 - c) Authorized costs of administration.

The Special Tax Levy will first be uniformly applied to the Developed Property in an amount not to exceed \$11,500 per net acre then, to the extent necessary, up to \$11,500 per net acre on Undeveloped Property. The amount of the Special Tax has been projected to generate revenues equal to approximately one and one half times (1½) the debt service requirement of the Bonds. Of the property subject to Special Taxes within the District, the District consists of approximately 202.34 “Developed” net acres and approximately 45.61 “Undeveloped” net acres.

The Special Taxes and any penalties thereon constitute a lien against the lots and parcels of land that will be annually imposed until they are paid. Such lien is on parity with all special taxes, including but not limited to the separate special taxes authorized to be levied within Improvement Area No. 1 of the District (the “Improvement Area”), and special assessments and is co-equal to and independent of the lien for general property taxes, regardless of when the taxes are imposed upon the same property. *The Special Taxes have priority over all existing and future private liens imposed on the property.* Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. There is no assurance that the owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. With certain limitations, the City has covenanted to commence foreclosure proceedings in the event delinquencies occur.

Gross Revenue Pledge. All Special Taxes levied on Taxable Property within the District remaining after payment of Administrative Expenses each year are pledged on a parity as security for payment of all Outstanding Bonds. See APPENDIX B—“SUMMARY OF THE INDENTURE.”

Collection and Application of Special Taxes. The Special Taxes on all Taxable Property are levied and collected by the Treasurer-Tax Collector of Riverside County (the “County”) in the same manner and at the same time as *ad valorem* property taxes. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments, including the special tax lien on the properties within the Improvement Area, already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the District or the landowners therein. See discussion under the heading “SPECIAL RISK FACTORS—Property Taxes and Special Assessments” herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See “SPECIAL RISK FACTORS” herein.

Under the terms of the Indenture, all Special Taxes received by the District are to be deposited in the Special Tax Fund. Special Taxes deposited in the Special Tax Fund each fiscal year are to be applied by the Trustee under the Indenture in the following order of priority: (i) to deposit an amount not exceeding the Administrative Expense Cap (as defined in the Indenture) into the Administrative Expenses Account to pay Administrative Expenses; (ii) to pay the principal of and interest on the Bonds when due; (iii) to replenish the Reserve Account to the Reserve Requirement; (iv) to make any required transfers to the Rebate Fund; (v) to pay Administrative Expenses of the District above the Administrative Expenses Cap referenced in (i) above; and (vi) for any other lawful purpose of the District. See APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

Agency Payments

The Agency has entered into an agreement with the City (on behalf of the District), dated as of October 1, 2007 and entitled “Agency Towngate Agreement.” Under the Agency Towngate Agreement, the Agency has agreed to pay to the District in each year, so long as the Bonds are outstanding, an amount sufficient to pay scheduled annual debt service on the Bonds. After determining those amounts on deposit with the Trustee available for the making of such payments, the Agency will pay such amount as is necessary to satisfy the next two (2) regularly scheduled payments of principal and interest on the Bonds, certain administrative expenses, and deficiencies in the Reserve Account relating to the Bonds. Payments made by the Agency to the District under the Agency Towngate Agreement are referred to herein as “Agency Payments.”

The Agency has agreed in the Agency Towngate Agreement to pay to the District amounts of tax increment revenues which the Agency receives net of payments required under the \$8,075,000 Community Facilities District No. 3 of the City of Moreno Valley (Auto Mall Refinancing), Special Tax Bonds, Series 2000 (the “Auto Mall Bonds”), Housing Set-Aside requirements, Tax Sharing Agreements and Tax Sharing Statutes; such amounts as are payable net of such obligations are the “Agency Towngate Agreement Amounts.” See discussion under the heading “SOURCES OF PAYMENTS FOR THE BONDS—Agency Payments” and the heading “TAX INCREMENT REVENUES; LIMITATIONS ON TAX INCREMENT REVENUES.” The Agency anticipates that Agency Towngate Agreement Amounts will be paid to the District in amounts sufficient to defray scheduled debt service payments on the Bonds for each year that the Bonds remain outstanding and to pay estimated administrative expenses of the District for such year. The District has covenanted in the Indenture that so long as the Bonds are outstanding, the District will not issue bonds senior to the Bonds or on a parity with the Bonds (excepting only Parity Bonds the proceeds of which are used to refund Bonds) secured by amounts payable by the Agency under the Agency Towngate Agreement. In the event that Agency Payments are not made and the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in certain funds under the Indenture, including amounts held in the Reserve Account therein and such amounts as have been received from the Agency. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund” herein.

Limited Obligations. The Bonds are special obligations of the District payable (after payment of the Administrative Expenses of the District in an amount not to exceed the Administrative Expense Cap) solely from, and secured by a pledge of and lien upon, the annual Special Tax (as defined below) authorized by the Act to be levied by the City on land within the District and collected within the District, proceeds from the sale of property collected pursuant to the foreclosure provisions of the Act and the Indenture for the delinquency of such Special Taxes, certain payments from the Agency as described under “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments,” and certain funds and accounts established under the Indenture. Administrative Expenses for the 2007-08 Fiscal Year are estimated at \$137,250, which is equal to the Administrative Expense Cap for such Fiscal Year, and are projected to be increased each Fiscal Year by two percent (2%) of the amount of the administrative expenses for the preceding Fiscal Year.

A summary of the Agency’s historical “Tax Increment Revenue” (revenue allocated to and received by the Agency pursuant to Section 33670(b) of the California Health and Safety Code) and projected future Tax Increment Revenue is set forth in the following Table 1.

TABLE 1
COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY
HISTORICAL AND PROJECTED TAX INCREMENT REVENUES
000's Omitted

<i>Fiscal Year</i>	<i>Property Tax Increment⁽¹⁾</i>	<i>Less Projected Payments⁽²⁾ Under 33676</i>	<i>Less Housing Set-Aside⁽³⁾</i>	<i>Less Projected Payments Under Taxing Agency Agreements⁽⁴⁾</i>	<i>Less County Admin. Charges</i>	<i>Net Tax Revenue</i>	<i>Less Debt Service,⁽⁵⁾ Certain Obligations</i>	<i>Available Tax Increment</i>	<i>Proposed Debt Service on the Bonds</i>	<i>Ratio of Projected Net Tax Revenue to Scheduled Principal and Interest on the Bonds</i>
2002	\$ 5,390	\$ -	\$1,078	\$ -	\$114	NA	\$ NA	\$ 4,199	\$ -	NA
2003	6,079	-	1,216	-	47	NA	NA	4,816	-	NA
2004	7,594	-	1,519	454	99	NA	NA	5,523	-	NA
2005	10,182	-	2,036	2,987	116	NA	NA	5,042	-	NA
2006	13,348	-	2,670	6,270	107	NA	NA	4,301	-	NA
2007	17,325	-	3,465	8,411	141	NA	NA	5,309	-	NA
2008	20,448	944	3,901	10,267	181	\$5,154	455	4,893	1,025	5.03:1
2009	21,789	1,004	4,157	11,007	193	5,428	448	4,980	1,024	5.30:1
2010	22,164	1,066	4,220	11,213	197	5,469	446	5,023	1,024	5.34:1
2011	22,435	1,128	4,261	11,362	199	5,484	368	5,116	1,026	5.35:1
2012	22,708	1,192	4,303	11,513	201	5,498	365	5,133	1,028	5.35:1
2013	22,985	1,257	4,346	11,665	204	5,513	370	5,143	1,024	5.38:1
2014	23,264	1,324	4,388	11,819	206	5,526	374	5,152	1,028	5.38:1
2015	23,546	1,391	4,431	11,975	209	5,540	377	5,163	1,029	5.39:1
2016	23,830	1,461	4,474	12,132	211	5,553	375	5,178	1,028	5.40:1
2017	24,118	1,531	4,517	12,290	214	5,566	377	5,189	1,029	5.41:1
2018	24,408	1,603	4,561	12,450	217	5,578	382	5,196	1,027	5.43:1
2019	24,702	1,676	4,605	12,612	219	5,589	385	5,204	1,025	5.45:1
2020	24,998	1,751	4,649	11,195	222	7,181	390	6,791	1,029	6.98:1
2021	25,297	1,828	4,694	10,440	224	8,111	391	7,720	1,026	7.91:1

⁽¹⁾ Property Tax Increment for years subsequent to 2007-08 are projected based on 2007-08 assessed values reported by the County, with adjustments for have been reduced for assessment appeals and increased for a 1.0% trend and new development that was under construction and/or completed but not yet reflected on the tax roll as of August 2007. Revenues shown for years prior to 2007-08 are based on actual tax receipts.

⁽²⁾ Payments to the school districts are assumed to be required commencing in the 2007-08 fiscal year pursuant to a 2001 court case referred to as the *Santa Ana* case. Per a California Attorney General's opinion these payments are not required to count as tax increment revenue and therefore are not subject to the housing set-aside requirement.

⁽³⁾ The Housing Set-Aside obligation for the Project Area has been calculated based on tax increment revenues, less the 33676 amounts. See Note 2 above.

⁽⁴⁾ Estimated payments due to the County of Riverside and the Riverside County Flood Control and Water Conservation District pursuant to the terms of tax sharing agreements between the Agency and those taxing entities. See "Agency Obligations" section in the Fiscal Report for additional information. The amount calculated as due is based on gross tax increment receipts, without offset for the 33676 payments.

⁽⁵⁾ Amounts shown include amounts of Tax Increment Revenues payable for the Auto Mall Bonds and amount of Tax Increment Revenues encumbered in connection with the "Improvement Area Bonds", as defined below; see discussion under the heading "THE COMMUNITY FACILITIES DISTRICT—Designation of the Improvement Area; Improvement Area Bonds." Amounts do not include administrative charges of the District.

Source: City as to historical figures; for projected figures, DHA Consulting, excepting as to "Less Debt Service, Certain Obligations," "Available Tax Increment," "Proposed Debt Service on the Bonds" and "Ratio of Projected Net Tax Revenue to Scheduled Principal and Interest on the Bonds," for which the source is the City.

Covenant to Foreclose; Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of land within the District resulting from a landowner's failure to pay the Special Taxes when due are included within the Special Tax revenues pledged to the payment of principal of and interest on the Bonds under the Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the Governing Board, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted to commence judicial foreclosure proceedings against all parcels of property owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$1,000 by the December 1 following the close of each fiscal year in which such Special Taxes were due, and that it will commence such foreclosure proceedings against all parcels with delinquent Special Taxes by the December 1 following the close of each fiscal year in which it receives Special Taxes in an amount which is less than 90% of the total Special Taxes levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. The District is not obligated to advance funds from any source of legally available funds in order to avoid a default in the payment of the Bonds. See APPENDIX B—"SUMMARY OF THE INDENTURE" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the Agency and the District. See discussion under the headings "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" and "—FDIC/Federal Government Interests in Properties" herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See discussion under the heading "SPECIAL RISK FACTORS—Property Values" herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. Moreover, if the District chooses to purchase the property sold at foreclosure using a "credit bid" (where the District submits a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax), as permitted under Section 53356.5 of the Act, the District must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Reserve Account of the Special Tax Fund

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement, which is defined as the amount, as of any date of calculation, equal the least of (i) 10% of the initial principal amount of the Bonds, less original issue discount, if any, plus original issue premium, if any, or; (ii) the Maximum Annual Debt Service on the Bonds, or (iii) one hundred twenty-five percent (125%) of average annual debt service on the Bonds (the "Reserve Requirement"). Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in Appendix A, the District has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds, to the extent other monies are not available therefor; (ii) pay the

principal and interest due in the final year of maturity of the Bonds, and (iii) pay rebate to the federal government. See APPENDIX B—“SUMMARY OF THE INDENTURE” herein.

In place of funds held by the Trustee in the Reserve Account to satisfy the Reserve Requirement, the District may substitute a municipal bond debt service reserve fund policy, a surety bond or a letter of credit satisfying the criteria set forth in the Indenture.

FINANCIAL GUARANTY INSURANCE POLICY

The following information concerning the Bond Insurer and the Insurance Policy has been furnished by the Bond Insurer for use in this Official Statement, and has not been independently certified or verified by the City. No representation is made by the Agency or the Underwriter as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Bond Insurer subsequent to the date of this Official Statement. Reference is made to Appendix I for a specimen of the Bond Insurer’s policy.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (the “Bond Insurer”) has made a commitment to issue a financial guaranty insurance policy (the “Policy”) relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Policy, the Bond Insurer will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Policy). The Insurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Policy will insure payment only on stated maturity dates and 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, the Bond Insurer will remain obligated to pay the 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 the Bond Insurer 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, the Bond Insurer’s obligations under the Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that 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, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Policy does **not** insure any risk other than Nonpayment (as set forth in the Policy). Specifically, the 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; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Policy, payment of principal requires surrender of the 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 the Bond Insurer to the extent of the payment under the Policy. Payment of interest pursuant to the Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to the Bond Insurer.

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

In the event that the Bond Insurer 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.

Ambac Assurance Corporation

The Bond Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is 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 \$10,391,000,000 (unaudited) and statutory capital of approximately \$6,730,000,000 (unaudited) as of June 30, 2007. Statutory capital consists of the Bond Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to the Bond Insurer.

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

The Bond Insurer 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, this Official Statement other than the information supplied by the Bond Insurer and presented under the heading "FINANCIAL GUARANTY INSURANCE POLICY."

Available Information

The parent company of the Bond Insurer, 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 "Commission"). Such reports, proxy statements and other information may be read and copied at the public reference facilities maintained by the Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the Commission at (800) SEC-0330 for further information on the public reference room. The Commission 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 Commission, including the Company. These reports, proxy statements and other information can also be read

at the office of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of the Bond Insurer’s financial statements prepared in accordance with statutory accounting standards are available from the Bond Insurer. The address of the Bond Insurer’s administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (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, 2006 and filed on March 1, 2007;
2. The Company’s Current Report on Form 8-K dated and filed on April 25, 2007;
3. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;
4. The Company’s Current Report on Form 8-K dated and filed on July 25, 2007;
5. The Company’s Current Report on Form 8-K dated and filed on August 3, 2007;
6. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007;
7. The Company’s Current Report on Form 8-K dated October 10, 2007 and filed on October 11, 2007; and
8. The Company’s Current Report on Form 8-K dated and filed on October 24, 2007.

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 under the heading “Available Information.”

THE COMMUNITY FACILITIES DISTRICT

The District

The District was formed pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (constituting Section 53300 *et seq.* of the California Government Code) (the “Act”). The Act was enacted by the California Legislature to provide a method of financing certain public capital facilities and services. Once duly established, a community facilities district is a legally constituted governmental entity within defined boundaries, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two-thirds vote of the qualified electors voting, and compliance with the applicable provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such a district to repay such indebtedness, to pay directly for authorized facilities or services and to pay administrative expenses incident to the activities of the district.

Location

The District consists of approximately 247.95 net taxable developable acres of land located within the TownGate Development at its northern boundaries located in the City bounded on the north by State Route 60 (Moreno Valley Freeway), on the west by Day Street, on the south by Eucalyptus Avenue/TownGate Boulevard and on the east by Frederick Street. At the eastern portion of the District, TownGate Community Shopping Center, the TownGate Plaza and the Mall have been developed. See discussion below under the heading “—Development Within the District.”

Summary of District Proceedings

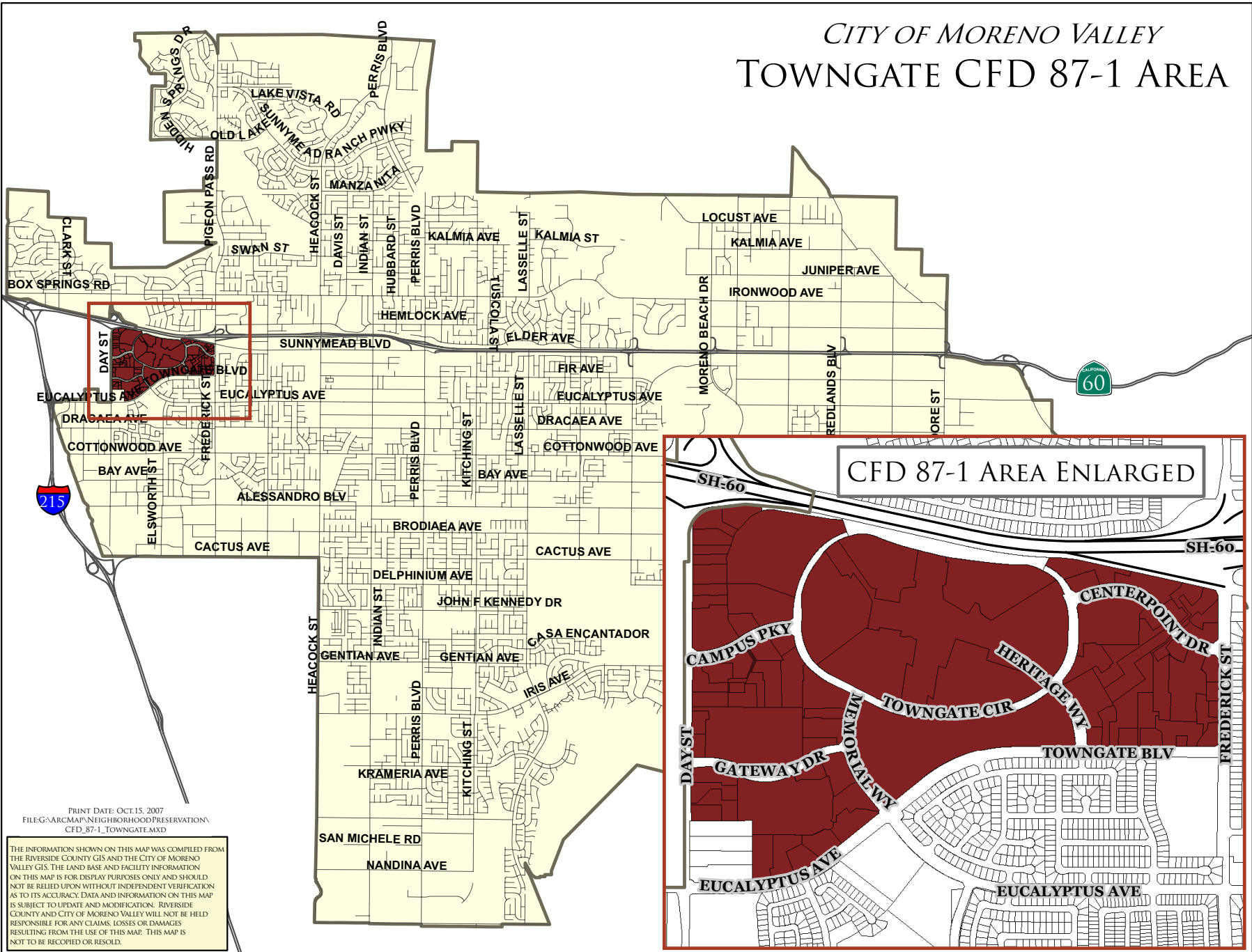
The proceedings to establish the District, approve the Rate and Method and issue the Prior Bonds are described above under the heading “INTRODUCTION—The District.”

In accordance with the Rate and Method, the District is divided into two Zones: Zone A and Zone B. Each Zone consists of properties, both developed and undeveloped, which are served and benefited by those improvements which have been funded by the District.

Designation of the Improvement Area; Improvement Area Bonds

The Improvement Area was designated by the Governing Body in order to finance certain improvements which benefit a regional mall and an additional commercial development, including the acquisition of land for a detention basin. The parcels of land within the Improvement Area are responsible for payment of a portion of the debt service on the Bonds. Parcels within Improvement Area No. 1, are also subject to special taxes as imposed under a Rate and Method of Apportionment as approved by City Resolution No. 92-79 (the “Improvement Area RMA”) to defray scheduled debt service payments on the District’s \$5,000,000 Towngate CFD 87-1 (Improvement Area No. 1) bonds issued in 1993 (the “Improvement Area Bonds”) currently outstanding in the amount of \$3,810,000. Maximum annual debt service on the Improvement Area Bonds is approximately \$408,631.25. It is contemplated that the Improvement Area Bonds will be refunded at or about the same time the Bonds are issued. In connection with such refunding, the Agency has entered into an agreement entitled “Improvement Area Agreement”) under which the Agency has agreed, subject to various conditions and limitations, to make certain payments to be applied by the District for the benefit of the Improvement Area. Special taxes imposed under the Improvement Area RMA and amounts, if any, payable by the Agency under the Improvement Area Agreement will be available to make payments for the Improvement Area Bonds or bonds which refund the Improvement Area Bonds. Special taxes imposed under the Improvement Area RMA (as well as payments, if any, made by the agency under the Improvement Area Agreement) will not be available for payment of the Bonds.

CITY OF MORENO VALLEY TOWNGATE CFD 87-1 AREA



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 CFD_87-1_TOWNGATE.MXD

THE INFORMATION SHOWN ON THIS MAP WAS COMPILED FROM THE RIVERSIDE COUNTY GIS AND THE CITY OF MORENO VALLEY GIS. THE LAND BASE AND FACILITY INFORMATION ON THIS MAP IS FOR DISPLAY PURPOSES ONLY AND SHOULD NOT BE RELIED UPON WITHOUT INDEPENDENT VERIFICATION AS TO ITS ACCURACY. DATA AND INFORMATION ON THIS MAP IS SUBJECT TO UPDATE AND MODIFICATION. RIVERSIDE COUNTY AND CITY OF MORENO VALLEY WILL NOT BE HELD RESPONSIBLE FOR ANY CLAIMS, LOSSES OR DAMAGES RESULTING FROM THE USE OF THIS MAP. THIS MAP IS NOT TO BE REPRODUCED OR RESOLD.

Assessed Valuation

The Riverside County Assessor's Office has reported the Assessed Valuation of those parcels within the District that are subject to the obligation to pay Special Taxes to be \$314,898,300 as of January 1, 2007. The assessed valuation of each of the parcels in the District upon which the Special Tax is to be applied varies substantially. The assessed valuation of real property within the District is not necessarily reflective of its market value.

Development Within the District

Following is a summary description of development that has occurred within the District.

TownGate Center and Plaza is the site of the initial commercial development within the District. This site consists of 50.15 acres and offers mixed-use and community/commercial facilities. Anchoring this site is a 400,000 square foot retail shopping center, constructed between 1988 and 1991, with such major retailers as Mervyn's Department Stores, Ralph's Supermarket, Staples, and Ross Dress for Less. Following development of the shopping center, construction of the Olive Garden Restaurant was completed in 1991. Additional site development includes Bank of America, Wells Fargo Bank, Regency Theaters, Chili's Grill & Bar Restaurants, Acapulco Mexican Restaurant & Cantina, Carl's Jr. Restaurants, Del Taco, Exxon Mobil, Washington Mutual, Outback Steak House, Pick-up Styx, Starbucks Coffee and BJ's Restaurant & Brewery.

Moreno Valley Mall at TownGate opened on October 14, 1992. The 1.3 million square foot regional mall includes four department store anchors: J.C. Penney, Harris/Gottschalks, Sears & Roebuck, and Macy's. In addition to the anchors, the Mall includes 430,000 square feet of gross leaseable area, of which approximately 89% is currently leased. A fifth anchor site, Harkins Theatres, an upscale cinema theater with 16-auditorium style screening rooms and 3,500-stadium style seats, opened on June 23, 2006. A new Mall entrance that has been proposed by the property owner, Gateway Company ("Gateway"), for the parking deck between Harkin's Theatres and Macy's, would allow up to 16,000 square feet of future restaurant space in the remaining area between the theatre and the Mall ring road (Towngate Circle). The Macaroni Grill Restaurant has submitted plans to the City, and City staff has been informed by representatives of the property owner, Gateway, that TGI Friday's has signed a Letter of Intent for future development within this area.

Stonegate Apartments at TownGate (formerly known as Legacy at TownGate), a 556-unit apartment complex located south of Towngate Circle and north of Towngate Boulevard between Memorial Way and Heritage Way, has been constructed, and leasing of apartments began in spring 2006.

TownGate Promenade is an approximately 35-acre shopping center. The anchor of this center, Costco Wholesale (formerly Price Club), opened September 25, 1992, and in 2007 expanded their warehouse to include an additional 14,000 square feet of retail warehouse space. West of Costco, four nationally recognized restaurants have developed and are in operation: Baker's Burgers opened August 30, 2005; Mimi's Café opened February 10, 2006; Applebee's Restaurants opened May 14, 2007; and Panda Express, an express Chinese food restaurant with drive-thru, opened on July 16, 2007. Scheduled to begin construction during late 2007 is Johnny Carino's and On the Border. Famous Dave's BBQ has submitted plans to the City to develop a restaurant within this area and City staff has been informed by representatives of the property owner, Gateway, that Red Lobster has an executed Letter of Intent. Northwest of Costco, a 141,000 square foot retail area is proposed, which will accommodate future retail and additional restaurant sites: Chipotle, Corner Bakery Café, Go Roma, Beverages & More, Party City, and Orchard Supply Hardware (OSH), each of which, City has been informed by representatives of the property owner, Gateway, has signed a Letter of Intent to develop in this area. Two hotel sites, Ayers Suites, a 127-room, four story European boutique style hotel with meeting room and restaurant, and Hampton Inn and Suites, a four story hotel consisting of 115 rooms with meeting room facilities, is approved to begin construction by the end of calendar year 2007.

TownGate Crossing is anchored by Lowes Home Improvement Warehouse, which purchased a 15-acre parcel and constructed a 139,095 square foot retail home improvement center and a 33,555 square foot garden center on the southeast corner of State Highway 60 and Day Street. Lowes opened on January 29, 2003. Circuit City relocated from TownGate Center and opened a new 33,989 sq. ft. retail store on February 19, 2004. Additional site development at TownGate Crossing includes Wendy's Hamburgers, a 3,245 square foot restaurant with a drive-thru, which opened in December of 2003, and a Starbucks Coffee with drive-thru, which opened on August 16, 2004. Jamba Juice, Nextel, and Moreno Valley Dental opened in September 2004. Tarbell Realtors opened in January 2006 and Qdoba Mexican Grill opened in late summer of 2006. Boston Pizza is scheduled to start construction in 2007 and City staff has been informed by representatives of the property owner, Gateway, that Sports Authority has a Letter of Intent to build a 42,000 square foot store. Adjacent to TownGate Crossing, CalTrans acquired four parcels and completed construction of a new State Route 60 eastbound on ramp.

TownGate Square (formerly TownGate South) is a 28.57-acre site located at the southeast corner of Day Street and Gateway Drive. Proposed development on the 12 lots consists of a 306,000 square foot mixed-use complex, which will include 136,000 square feet of restaurant/retail space and 170,000 square feet of office space. The first anchor tenant, Winco Foods, Inc., completed construction of a 96,000 square foot grocery store and opened in the fall of 2006. Approval has been given to begin construction on Portillo's restaurant, a 7,500 square foot Chicago style sit down restaurant and drive-thru. City staff has been informed by representatives of the property owner, Gateway, that Starbucks Coffee along with several restaurants are also looking to come to TownGate Square in 2008.

Special Tax Which May Be Generated Within the District

Table 2 below provides the following information: (i) summarizes the Taxable Property in the District by residential or commercial land use classification for the 2006-07 Fiscal Year, (ii) provides the Fiscal Year 2006-07 Special Tax rates for Taxable Property, and (iii) provides the total Fiscal Year 2006-07 Special Tax capacity, i.e., revenues which would be generated if the District levied on all existing Taxable Property at Maximum Special Tax rates. The District Administrator, an employee of the City, has determined that, even if no further development were to occur in the District, the amount of Special Taxes which are authorized to be levied on currently Taxable Property in each fiscal year during the term of the Bonds would generate an amount sufficient to pay Administrative Expenses in each fiscal year, plus not less than 110% of the debt service on the Bonds in such fiscal year. The District expects that it will not be required to levy or collect any Special Taxes in order to make scheduled debt service payments on the Bonds due to the Agency Payments projected to be received. The District has covenanted that, to the extent Agency Payments are insufficient to fully pay scheduled debt service on the Bonds, the District will levy special taxes while the Bonds are outstanding at such amounts, up to the amounts provided by application of the Maximum Rates, that will generate moneys sufficient to defray Administrative Expenses and debt service on all outstanding Bonds. See discussion under the heading "SOURCES OF PAYMENT FOR THE BONDS—Agency Payments."

Since Fiscal Year 2002-03, the Agency has paid amounts sufficient to defray all debt service amounts of the District for the 1994A Bonds and the 1994B Bonds without the necessity of imposing any Special Taxes therefor and pay the administrative expenses of the District; such Agency payments have been made from Tax Increment Revenues generated from a portion of the Project Area. Under the Agency Towngate Agreement the Agency has agreed that Tax Increment Revenues from all of the Project Area net of Agency obligations under the Auto Mall Bonds, Housing Set-Aside requirements, Tax Sharing Agreements and Tax Sharing Statutes will be available for the making of payments for the Bonds.

**TABLE 2
CITY OF MORENO VALLEY
COMMUNITY FACILITIES DISTRICT NO. 87-1
(TOWNGATE)**

**FISCAL YEAR 2007-08 MAXIMUM SPECIAL TAXES
FROM TAXABLE PROPERTY BY CLASS**

<i>Tax Class</i>	<i>Maximum Special Taxes⁽¹⁾</i>
Developed (Residential) ⁽²⁾	\$ 300,035
Undeveloped (Residential)	-
Developed (Commercial)	2,026,875
Undeveloped (Commercial)	<u>524,515</u>
	<u>\$ 2,851,425</u>

⁽¹⁾ Based on existing development as of July 5, 2007 and maximum tax rate of \$11,500 per acre.

⁽²⁾ Apartments

Source: City of Moreno Valley.

No assurances can be given that these or any other Special Tax payers will pay the Special Taxes levied by the District in the future.

Estimated Debt Service Coverage

Table 3 below sets forth the estimated debt service coverage from Maximum Special Taxes, based on the development status in the District as of July 1, 2007 and the annual debt service of the Bonds. It is possible that the Maximum Special Taxes could be reduced, but the District has covenanted to oppose any reduction in Maximum Special Taxes. See “SPECIAL RISK FACTORS—Proceedings to Reduce or Terminate Special Tax.” Such estimated debt service coverage is without regard to Agency Payments. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.”

**TABLE 3
CITY OF MORENO VALLEY
COMMUNITY FACILITIES DISTRICT NO. 87-1
(TOWNGATE)**

ESTIMATED DEBT SERVICE COVERAGE FROM SPECIAL TAXES

<i>Bond Year Ending December 1</i>	<i>Special Taxes at Maximum Tax Rate⁽¹⁾</i>	<i>Debt Service</i>	<i>Estimated Coverage⁽²⁾</i>
2008	\$ 2,326,910	\$ 1,024,866.71	227.05%
2009	2,326,910	1,024,381.26	227.15
2010	2,326,910	1,024,381.26	227.15
2011	2,326,910	1,025,756.26	226.85
2012	2,326,910	1,027,831.26	226.39
2013	2,326,910	1,024,031.26	227.23
2014	2,326,910	1,027,781.26	226.40
2015	2,326,910	1,028,581.26	226.23
2016	2,326,910	1,028,181.26	226.31
2017	2,326,910	1,028,681.26	226.20
2018	2,326,910	1,027,181.26	226.53
2019	2,326,910	1,025,031.26	227.01
2020	2,326,910	1,028,631.26	226.21
2021	2,326,910	1,025,631.26	226.88
	<u>\$ 32,576,740</u>	<u>\$ 14,370,948.09</u>	

⁽¹⁾ Special Taxes, as if levied without regard to the receipt of payments from the Agency and at Maximum Tax Rates, based on development status as of July 1, 2007.

⁽²⁾ Calculated by dividing Special Taxes at Maximum Tax Rate column by Debt Service column.

Source: The City of Moreno Valley.

Delinquency History

There have been no delinquencies in the payment of special taxes as to the Prior Bonds.

Historic Values Within District

Table 4 shows the assessed valuation of Taxable Property in the District for the 2002-03 through 2007-08 fiscal years.

TABLE 4
CITY OF MORENO VALLEY
COMMUNITY FACILITIES DISTRICT NO. 87-1
(TOWNGATE)

HISTORICAL ASSESSED VALUES

<i>Fiscal Year</i>	<i>Assessed Value⁽¹⁾</i>	<i>Percentage Increase</i>
2002-03	\$139,998,344	N/A
2003-04	148,324,295	6%
2004-05	158,232,562	7
2005-06	203,826,216	29
2006-07	247,982,083	22
2007-08	319,403,846 ⁽²⁾	29

⁽¹⁾ Assessed values provided by the Riverside County as of January 1 of each calendar year. Includes secured and unsecured property values.

⁽²⁾ Of which \$314,898,300 is subject to the levy of Special Taxes.

Source: Riverside County Assessor's Office, as compiled by the City of Moreno Valley.

No Teeter Plan for Special Taxes

The County has not elected to include special taxes levied within community facilities districts within its Teeter Plan method of apportionment and distribution of taxes collected by the County for local government agencies. Pursuant to the Teeter Plan the County apportions to the local agencies 100% of the amount of the taxes which are levied regardless of the amount collected from property owners. The County retains all penalties and interest which are collected with delinquent taxes. Given that the Special Taxes levied on Taxable Property within the District are not subject to the Teeter Plan, the District will receive only the actual collections of the Special Taxes which are levied in each fiscal year.

Direct and Overlapping Debt

Within the District's boundaries are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within the District and others have authorized but unissued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the District. The approximate amount of the outstanding direct and overlapping debt secured by taxes and assessment on the parcels within the District as of October 1, 2007 is shown in Table 5 below (the "Debt Report"), prepared by California Municipal Statistics Inc. The District does not guarantee the accuracy of this information.

TABLE 5 CITY OF MORENO VALLEY COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)

DIRECT AND OVERLAPPING DEBT OF THE DISTRICT As of October 1, 2007

2007-08 Assessed Valuation: \$319,403,846⁽¹⁾

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽²⁾</u>	<u>Debt 10/1/07</u>
Metropolitan Water District	0.0001%	\$ 359
Riverside City Community College District	0.374	555,749
Moreno Valley Unified School District	2.625	1,291,855
Eastern Municipal Water District, I.D. No. U13	7.054	36,540
City of Moreno Valley Community Facilities District No. 87-1	100.	12,510,000⁽³⁾
City of Moreno Valley Community Facilities District No. 87-1, I.A. 1	100.	3,810,000 ⁽³⁾
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$18,204,503
Less; City of Moreno Valley Community Facilities District No. 87-1 self-supporting bonds	12,510,000	
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 5,694,503
<u>OVERLAPPING GENERAL FUND DEBT:</u>	<u>% Applicable⁽⁴⁾</u>	<u>Debt 10/1/07</u>
Riverside County General Fund Obligations	0.0009%	\$6,565
Riverside County Pension Obligations	0.0009	3,536
Riverside County Board of Education Certificates of Participation	0.0009	92
Moreno Valley Unified School District Certificates of Participation	0.018	4,620
City of Moreno Valley General Fund Obligations	0.015	12,962
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$27,775
Less: Riverside County self-supporting obligations		167
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$27,608
GROSS COMBINED TOTAL DEBT		\$18,232,278 ⁽⁵⁾
NET COMBINED TOTAL DEBT		\$5,722,111

Ratios to 2007-08 Assessed Valuation:

Gross Direct Debt (\$12,510,000)	3.92%
Net Combined Direct Debt (\$0)	0.00%
Total Gross Direct and Overlapping Tax and Assessment Debt.....	5.70%
Total Net Direct and Overlapping Tax and Assessment Debt	1.78%
Gross Combined Total Debt.....	5.71%
Net Combined Total Debt	1.79%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0

(1) Excludes personal property and fixtures.

(2) Based on 2006-07 ratios.

(3) Excludes issue to be sold.

(4) Based on redevelopment adjusted all property assessed valuation of \$1,467,827.

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

Source: California Municipal Statistics, Inc.

Estimated Assessed Value-to-Lien Ratios

The value of individual parcels and the direct and overlapping land secured bonded indebtedness on individual parcels vary greatly among parcels within the District. See Table 6 below. The value of each individual parcel is significant because in the event of a delinquency in the payment of Special Taxes levied on a parcel, the District may foreclose only against such delinquent parcel. The assessed value of property in the District for Fiscal Year 2007-08, as of the January 1, 2007 lien date, was \$319,403,846, of which \$314,898,300 was subject to the levy of Special Taxes.

Table 6 below sets forth the estimated assessed value-to-lien ratios for parcels within the District subject to Special Taxes, based on development status as of July 1, 2007, and the developed January 1, 2007 assessed value of the District and the principal amount of the Bonds, which results in an estimated value-to-lien ratio for the District as a whole of approximately 22 to 1 (exclusive of indebtedness other than in connection with the Bonds and the Improvement Area Bonds). In the event no Agency Payments were made and the maximum tax rate did not yield sufficient Special Tax revenues, it is possible that undeveloped properties could be subject to levy of Special Tax, including undeveloped properties which, using assessed value, would have a value-to-lien rate from the Developed Property, the City views any levy on Undeveloped Property as highly unlikely to occur.

For Fiscal Year 2007-08, no Special Taxes in connection with the District were collected under the Rate and Method; all amounts necessary for scheduled debt service payments on the Prior Bonds were paid by the Agency. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.” Table 6 below depicts how Special Taxes would have been allocated among owners of developed property within the District based on the scheduled debt service on the Prior Bonds had the Agency not made payments.

**TABLE 6
CITY OF MORENO VALLEY
COMMUNITY FACILITIES DISTRICT NO. 87-1
(TOWNGATE)**

ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS

<i>Owner</i>	<i>Number of Taxable Acres</i>	<i>Fiscal Year 2007-08 Assessed Value</i>	<i>Fiscal Year 2007-08 Special Tax Levy⁽¹⁾</i>	<i>Percentage of Total Levy</i>	<i>Proportionate Amount of Principal Amount of Bonds^{(1), (2)}</i>	<i>Proportionate Amount of Improvement Area Bonds</i>	<i>Estimated Value-to-Lien Ratio</i>
<i>Developed Properties</i>							
Andrew & Peggy Cherng	0.79	\$ 823,476	\$ 7,627	0.4%	\$ 41,640	\$ 20,838	13:1
Circuit City Stores, West Coast Inc.	3.53	6,160,440	34,079	1.7%	186,060	0	33:1
Costco Wholesale Corp	12.69	14,948,792	122,512	6.3%	668,868	334,730	15:1
El Corte Ingles	9.58	13,679,000	92,487	4.7%	504,946	287,370	17:1
Falls Apartment (Stonegate Apartments)	26.09	88,368,000	251,878	12.9%	1,375,160	0	64:1
Gateway Co.	6.50	10,241,284	62,752	3.2%	342,604	62,778	25:1
GCP Moreno Valley Inc.	7.43	19,170,457	71,731	3.7%	391,623	222,877	31:1
Harold Beral	9.97	13,871,633	96,253	4.9%	525,502	0	26:1
Homart Newco Two Inc.	31.09	40,000,000	300,150	15.4%	1,638,701	932,603	16:1
Inland Western MDS	6.68	8,662,991	64,490	3.3%	352,092	0	25:1
J. C. Penney's Prop. Inc.	10.13	11,914,364	97,797	5.0%	533,935	303,868	14:1
Lowe's HIW, Inc.	14.29	15,473,892	137,959	7.1%	753,202	0	21:1
Macy's California Inc.	11.41	13,005,000	110,155	5.6%	601,402	342,264	14:1
Neal T. Baker Ent.	0.79	1,325,999	7,627	0.4%	41,640	20,838	21:1
Playland Center Inc.	0.78	1,580,000	7,530	0.4%	41,112	0	38:1
Red Robin International Inc.	0.64	1,257,533	6,179	0.3%	33,733	0	37:1
Sears Roebuck & Co.	10.51	12,996,353	101,466	5.2%	553,964	315,267	15:1
TSC (Towngate Shopping Center)	28.50	31,488,311	275,145	14.1%	1,502,187	0	21:1
Winco Foods	10.94	9,930,775	105,617	5.4%	576,629	288,570	11:1
Total (Developed Properties)	<u>202.34</u>	<u>\$ 314,898,300</u>	<u>\$ 1,953,434</u>	<u>100.0%</u>	<u>\$ 10,665,000</u>	<u>\$ 3,132,003^{(2), (4)}</u>	<u>23:1⁽⁵⁾</u>

⁽¹⁾ Share of Proportionate Amount of Projected Principal Amount of Bonds is the proportionate share, based on the 2007-08 Special Tax, of the total principal amount of the Bonds outstanding, as if no payments had been made by the Agency and Special Taxes had been levied and collected as the sole source of payments. Because the Rate and Method provides that Special Taxes are levied only as to Undeveloped Property in the event Special Taxes from Developed Property are insufficient to defray debt service, assuming no payments had been made, there would have been no levy as to Undeveloped Property for 2007-08 due to the capacity of the Special Taxes from the Developed Property, alone, to defray debt service.

⁽²⁾ Does not include administrative charges for the District and does not reflect special taxes levied in connection with the Improvement Area.

⁽³⁾ Assessed value shown for Developed Properties projected as to which Special Tax would have been levied if Agency Payments had not been made. See discussion under the heading "SOURCES OF PAYMENT FOR THE BONDS—Agency Payments." The total assessed value for the District is \$319,403,846.

⁽⁴⁾ The \$942,998 balance of the amount of Projected Improvement Area Bonds is allocable to Undeveloped Property within the Improvement Area.

⁽⁵⁾ Ratio shown does not include that portion of the projected principal amount of Improvement Area Bonds, namely \$942,998. The estimated assessed value-to-lien ratio as recomputed to reflect the addition of the \$942,998 portion of the projected principal amount, using the Fiscal Year 2007-08 Assessed Value as shown in Table 6, is approximately 22:1.

Source: City of Moreno Valley.

SPECIAL RISK FACTORS

The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. Investors should review the discussion under the heading “RATINGS” as referenced under the heading “INTRODUCTION—Changes Since Date of Preliminary Official Statement” concerning ratings on various municipal bond insurers. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of taxpayers in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “—Property Values” and “—Limited Secondary Market” below.

Risks of Real Estate Secured Investments Generally

The Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the Agency or the District. Except with respect to the Special Taxes, neither the faith and credit nor the taxing power of the District or the Agency is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the Bonds may compel the exercise of any taxing power by the District or the Agency or force the forfeiture of any Agency or District property. Excepting as provided under the Agency Towngate Agreement, the principal of, premium, if any, and interest on the Bonds are not a debt of the Agency or a legal or equitable pledge, charge, lien or encumbrance upon any of the Agency’s or the District’s property or upon any of the Agency’s or the District’s income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture. Special Tax revenues could be insufficient to pay debt service on the Bonds as a result of delinquencies in the payment of Special Taxes or the insufficiency of proceeds derived from the sale of land within the District following a delinquency in the payment of the applicable Special Tax. The District and Agency have no obligation to pay debt service on the Bonds in the event of insufficient Special Tax revenues, following the making of Agency Payments under the Agency Towngate Agreement, except to the extent that money is available for such purpose in the Reserve Account. The District’s only obligation with respect to delinquent Special Taxes is to pursue judicial foreclosure proceedings under the circumstances described in the Indenture. “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales*” herein.

Insufficiency of Special Taxes

Under the Rate and Method set forth in Appendix A hereto, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on the land use class to which a parcel is assigned. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” and “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Rate and Method of Apportionment of Special Taxes*.”

Based on current development in the District, the Maximum Special Taxes that may be levied within the District are in excess of the sum of \$137,250 of Administrative Expense plus 110% of Maximum Annual Debt Service on the Bonds. Notwithstanding that the Maximum Special Taxes that may be levied in the District exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation.

The Rate and Method expressly exempts all property owned by a public agency except property leased by a public agency to a private entity. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” herein. The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. **If a substantial portion of land within the District were to become owned by public agencies, collections of the Special Tax might not be sufficient to pay principal of and interest on the Bonds when due and, if Agency Payments were not made under the Agency Towngate Agreement, a default could occur with respect to the payment of such principal and interest.**

Natural and Man-made Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of unseasonable rainfall. The occurrence of seismic activity, fires or flooding in or around the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes when due.

The nearest known fault to Moreno Valley is the San Jacinto Fault, the most historically active fault zone in Southern California. The San Jacinto Fault crosses the southwest corner of the City and is outside the Project Area. Since 1986, there have been eight notable earthquakes in Southern California, each having a magnitude of five or greater on the Richter Scale. None of these resulted in injury or damage in the City. The City is within Seismic Zone 4 of the 1997 Uniform Building Code. According to the Division of Mines and Geology, the San Jacinto Fault is the only active fault in the City.

The southerly half of the City is considered to be outside the 500-year floodplain, as shown on the Flood Insurance Rate Map (FIRM) dated March 18, 1996. The northerly portion of City is considered to be protected from the 100-year flood by a Federal flood protection system currently under construction. Upon certification of completion of this project by the U.S. Army Corps of Engineers, the City anticipates the revised FIRM will show the entire City to be free of flood risk.

Hazardous Substances

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated 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 taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the

costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has a current liability related to hazardous substances with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the taxable parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel and the willingness or ability of the owner of any affected parcel to pay the Special Tax installments when due.

Property Taxes and Special Assessments

Property within the District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Debt.” Those properties located within Improvement Area No. 1 are subject to special taxes in connection with the Improvement Area RMA as well as Special Taxes under the Rate and Method for the District; see discussion under the heading “THE COMMUNITY FACILITIES DISTRICT—Designation of the Improvement Area; Improvement Area Bonds.”

The Special Taxes and any penalties thereon will constitute a lien against the assessor’s parcels on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied on the property and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “—Bankruptcy and Foreclosure” below.

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property. The imposition of additional special taxes, special assessments and general property taxes will increase the amount of parity and co-equal liens which must be satisfied in foreclosure. Currently, there are Improvement Area Bonds outstanding in the amount of \$3,810,000, which are on a parity with the Bonds with respect to the lien of the Special Tax. Upon the refunding of the Improvement Area Bonds, which the City anticipates will occur prior to December 31, 2007, such refunding bonds will be on a parity with the Bonds with respect to the lien of the Special Taxes. The Improvement Area Bonds are not secured by payments of Tax Increment on a basis similar to that applicable to the Bonds.

Neither the City, nor the Agency, nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the owners of the assessed parcels within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for the property within the District described herein. See “SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Debt” and “—Estimated Assessed Value-To-Lien Ratios.”

Property Ownership. Ownership of property in the District is not diversified; see Table 2 and discussion under the heading “THE COMMUNITY FACILITIES DISTRICT—Development Within the District.” Failure of the property owners to pay the annual Special Taxes when due could result in the rapid total depletion of the Reserve Account prior to reimbursement from the resales of property or delinquency redemptions. In addition, the only asset of each owner of property within the District which constitutes security for the Bonds is his or her real property holdings located within the District.

Additional Debt. The ability of any owner of land within the District to pay the Special Taxes could be adversely affected if additional debt is issued which is payable by the owners of such land within the District. The land could become subject to additional debt by the imposition of other taxes and assessments by the District or other public agencies.

Maximum Tax. A Maximum Tax has been established with respect to the property located within the District. Even though it is unlikely that large areas will be exempted, under certain circumstances, the Maximum Tax may not be sufficient in the absence of payments of Agency Towngate Agreement Amounts. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments” and see APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision as well as transferors or lessors of property to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a special tax under the Act of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies; Periods During Which Special Taxes Not Collected

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the regular *ad valorem* property tax bills sent to owners of such properties by the County Tax Collector.

Delinquencies in the payment of Special Taxes have not been experienced within the District. Since Fiscal Year 1988-89, payments by the Agency have accounted for all principal and interest paid on the Prior Bonds. See discussion under the heading “THE COMMUNITY FACILITIES DISTRICT—Delinquency History,” which states that there have been no delinquencies in the payment of special taxes as to the Prior Bonds. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special

Taxes. See “—Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation (the “FDIC”) regarding the payment of special taxes and assessment and limitations on the District’s ability to foreclosure on the lien of the Special Taxes in certain circumstances.

Payment of the Special Tax is not a Personal Obligation of the Owners

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

Property Values

The value of the property within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District’s only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations or other events will adversely impact the security underlying the Special Taxes. See “THE COMMUNITY FACILITIES DISTRICT—Estimated Value-to-Lien Ratios” herein.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the Riverside County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

Prospective purchasers of the Bonds should not assume that the assessed parcels within the District could be sold for its assessed value at a foreclosure sale for delinquent Special Taxes.

No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales.*”

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC or other federal agencies have an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including

interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the Bonds.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Covenant to Foreclose; Proceeds of Foreclosure Sales.*" In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount and priority of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in procuring Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default on the Bonds or under the Indenture.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, 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 future acts or omissions of the District in violation of its covenants in the Indenture with respect to compliance with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

Limitations on Remedies

Remedies available to the owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of any Bonds sold on a tax-exempt basis.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. See discussion under the heading "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Proceedings to Reduce or Terminate the Special Tax

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative continue to be interpreted by the courts. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIII C states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

"Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way

consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.”

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the Governing Board of the Agency acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted to not consent or conduct proceedings with respect to a reduction in the Maximum Special Taxes that may be levied in the District.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See “—Limitations on Remedies.”

Ballot Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations.

Proposition 218, a constitutional initiative known as the Right to Vote on Taxes Act, was approved by California voters in November 1996. CFD 87-1 (Towngate) was established to finance the capital costs for roadway improvements, including grading, paving, sewers, sidewalks, landscaping, etc. Bonds were issued to provide funding for these improvements. Only properties benefiting from the improvements have annual special tax levies placed on the property tax roll to repay the bonded indebtedness. Due to these factors, CFD 87-1 (Towngate) Bonds, including the Bonds, are exempt from the provisions of Proposition 218. Subsequent increases, not addressed in the original Report, will be subject to a two-thirds voter approval.

THE AGENCY AND THE REDEVELOPMENT PROJECT

It is anticipated that all payments of principal and interest on the Bonds, as well as administrative expenses of the District, will be borne by payments of the Agency. See discussion under the heading “SOURCES OF PAYMENT FOR THE BONDS—Agency Payments.” The Agency was established pursuant to the California Community Redevelopment Law (the “Redevelopment Law”), codified in Part 1 of Division 24 of the California Health and Safety Code. The Agency was activated on February 18, 1986, by City Ordinance No. 50. The Agency adopted and approved the Redevelopment Plan for the Project Area by Ordinance 87-154 of the City on December 29, 1987. The City Council acts as the governing board of the Agency.

The Project Area in the Redevelopment Plan encompasses an area of approximately 4,676 acres, including the TownGate Development Property, containing residential, commercial, industrial, institutional and public uses. The Project Area is bounded on the southwest by March Air Force Base. The Project Area also includes four non-contiguous areas, including the Warner Ranch and the Eastgate Area.

Riverside County has customarily allocated property taxes to the Agency based on 100% of the tax levy notwithstanding any delinquencies. Consequently, the Agency expects that it will timely receive its full allocation of Tax Increment Revenues from the County. However, there can be no assurance the County will continue such policy. During the 2006-07 fiscal year, the County did not disburse all tax increment revenues to the Agency, retaining an amount which the County asserts was payable by the Agency to the County under a tax sharing agreement with the County. See discussion under the heading “TAX INCREMENT REVENUES; LIMITATIONS ON TAX INCREMENT REVENUES—Statutes, Agreements and Other Factors Limiting Agency Payments.” The Agency believes that the County’s claim was limited to a prior period and that such a claim will not recur; however, it is possible that the County could fail to fully or timely disburse Tax Increment Revenues to the Agency, such a failure could delay or reduce the payment of Agency Towngate Agreement Amounts by the Agency. The Agency has no taxing power.

TAX INCREMENT REVENUES; LIMITATIONS ON TAX INCREMENT REVENUES

Property Tax Limitations – Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors. See APPENDIX G—“REPORT OF THE FISCAL CONSULTANT.”

Article XIII A further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII A was adopted in June 1986 by initiative which exempts any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property from the 1 percent limitation.

On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*).

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

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

Tax increment revenues constitute virtually the only source of revenues to the Agency. The Agency has no independent power to levy and collect property taxes.

Challenges to Article XIII A

There have been many challenges to Article XIII A of the California Constitution. On December 22, 1978, the California Supreme Court upheld the Proposition B over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*.) The Court reserved certain constitutional issues and the validity of legislation implementing the amendment for future determination in proper cases.

The United States Supreme Court also considered Article XIII A 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 City cannot predict whether there will be any future challenges to California's present system of property tax assessment and cannot evaluate the ultimate effect on the Agency's receipt of tax increment revenues should a future decision hold unconstitutional the method of assessing property.

Implementing Legislation

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that each county will levy the maximum tax permitted by Article XIII A, \$4.00 per \$100 assessed valuation (based on the traditional practice in California of using 25% of full cash value as the assessed value for tax purposes).

The apportionment of property taxes in fiscal years after 1978-79 has been revised pursuant to Statutes of 1979, Chapter 282 which provides relief funds from State moneys beginning in fiscal year 1978-79 and is designed to provide a permanent system for sharing State taxes and budget surplus funds with local agencies. Under Chapter 282, cities and counties receive about one-third more of the remaining property tax revenues collected under Proposition 13 instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief. Chapter 282 does not affect the derivation of the base levy (\$1.00 per \$100 taxable valuation) and the bonded debt tax rate.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs except for certain utility property assessed by the State Board of Equalization which is allocated by a different method discussed herein.

Proposition 87

Under State law prior to 1988, if a taxing entity increased its tax rate to obtain revenues to repay voter approved general obligation bonds, any redevelopment project area which included property affected by the tax rate increase would realize a proportionate increase in tax increment.

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

Property Tax Collection Procedures

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

Collections. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer (3) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee.

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

Penalties. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1½% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1½% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

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

Appropriations Limitations: Article XIII B of the California Constitution

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

The California Legislature has included as part of the California Community Redevelopment Law (Part 1 of Division 24 of the California Health and Safety Code; herein, the “Redevelopment Law”) Section 33678 of the Redevelopment Law which provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by such agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIII B, nor shall such portion of taxes be deemed receipt of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State of California, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions, *Brown v. Community Redevelopment Agency of the City of Santa Ana* and *Bell Community Redevelopment Agency v. Woosley*. The

plaintiff in *Brown* petitioned the California Supreme Court for a hearing of this case. The California Supreme Court formally denied the petition. On the basis of these court decisions, the City does not believe that the Agency is subject to Article XIII B, the Agency has not adopted an appropriations limit.

Future Initiatives

Article XIII A, Article XIII B and Proposition 62 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency's ability to expend revenues.

Tax Allocation Procedures of the County

Tax Increment Revenue. Each year, the County determines the amount of property tax revenue to be levied in the Project Area for a given tax year and identifies the respective amounts due the Agency and the taxing entities represented in the base year. The County's current practice is to pay redevelopment agencies 100 percent of the tax levy with no deduction for delinquencies, appeals, refunds or tax roll adjustments. This practice could change at any time. See APPENDIX G—"REPORT OF THE FISCAL CONSULTANT."

County Collection Charge. Counties are authorized to charge redevelopment agencies for costs incurred in the assessment, collection and allocation of property tax revenues pursuant to SB 2557 (Chapter 466, Statutes of 1990). The Available Tax Increment shown in Table 1 hereof is net of such amounts. See APPENDIX G—"REPORT OF THE FISCAL CONSULTANT."

Base Year Valuation Adjustments. The Redevelopment Law provides that the base assessment roll utilized for the allocation of Tax Increment Revenues may be reduced by the taxable value, as shown on the base roll, of those properties acquired for public use of tax exempt public entities. The precedent for this action stems from the 1963 case of Redevelopment Agency of the *City of Sacramento vs. Malaki*, 216 Cal. App. 2d 480, and subsequent, related cases.

The projecting of Available Tax Increment in Table 1 hereof and projections in APPENDIX G—"REPORT OF THE FISCAL CONSULTANT," incorporate the fiscal year 2007-08 base year value as reported by the County. Future estimates are based on the assumption by the Fiscal Consultant that the base year value for the Project Area remains at the level reported by the County for the 2007-08 fiscal year. Acquisition of property within the Project Area by public agencies may cause assessed values to decline, resulting in a reduction in Available Tax Increment.

Certification of Agency Indebtedness

A significant provision of the Redevelopment Law, Section 33675, provides for the filing not later than the first day of October of each year with the county auditor, a statement of indebtedness certified by the chief fiscal officer of the redevelopment agency for each redevelopment project which receives tax increment. The statement of indebtedness is required to contain the date on which any bonds were delivered, the principal amount, term, purpose and interest rate of such bonds and the outstanding balance and amount due on such bonds. Similar information must be given for each loan, advance or indebtedness that the redevelopment agency has incurred or entered into to be payable from tax increment.

Section 33675 also provides that the county auditor is limited in payment of tax increment to the agency to the amounts shown on the redevelopment agency's statement of indebtedness. The Section further provides that the statement of indebtedness is prima facie evidence of the indebtedness of the redevelopment agency, but that the county auditor may dispute the amount of indebtedness shown on the statement in certain cases. Provision is made for time limits under which the dispute can be made by the county auditor as well as provisions for determination by the Superior Court in a declaratory relief action of the proper disposition of the

matter. The issue in any such action will involve only the amount of the indebtedness and not the validity of any contract or debt in connection with payments by such public agency pursuant thereto.

Plan Limitations

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

Section 33334.1 requires a redevelopment plan adopted on or after October 1, 1976, to contain a limit on the amount of bonded indebtedness which can be outstanding at one time. Section 33354.6 provides that with respect to any amendment of a redevelopment plan (which provides for the allocation of taxes) to add new territory to a project area, the agency must follow the procedures and be subject to the same restriction as provided in the adoption of a new redevelopment plan.

The Redevelopment Plan provides that the Agency shall not, after December 29, 2007, establish any loans, advances or indebtedness to finance projects in the Project Area.

Statutes, Agreements and Other Factors Limiting Agency Payments

The Agency is subject to several statutes and agreements and other factors that limit tax increment revenues of the Agency. Tax Increment Revenues available to the Agency are reduced in connection with affordable housing obligations of the Agency, as well as the obligation of the Agency under certain agreements as described below. Such tax increment revenues may further be reduced in connection with additional claims as to revenues by certain school districts and in connection with future amendments, if any, to the Redevelopment Plan.

Housing Set-Aside. Chapter 1337, Statutes of 1976, added Sections 33334.2 and 33334.3 to the Redevelopment Law requiring redevelopment agencies to set aside at least 20 percent of all Tax Increment Revenues allocated and paid to redevelopment agencies from redevelopment project areas adopted after December 31, 1976 in the Agency's Low and Moderate Income Housing Fund to be expended for authorized low and moderate income housing purposes (the "Housing Set-Aside Amounts"). Housing Set-Aside Amounts will not be included in or available for the payment of any Agency Towngate Agreement Amounts. See APPENDIX G—"REPORT OF THE FISCAL CONSULTANT."

Tax Sharing Agreements. Pursuant to Section 33401 of the Redevelopment Law as in effect at the time of adoption of the Redevelopment Plan, a redevelopment agency was authorized to enter into an agreement to pay Tax Increment Revenues to any taxing agency that has territory located within a redevelopment project area in an amount which in the agency's determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements are called "Tax Sharing Agreements."

The Agency has entered into two Tax Sharing Agreements whereby portions of the taxes which would otherwise be allocated and paid to the Agency as described above are required to be paid to certain entities. Amounts paid under the Tax Sharing Agreements which are senior in right of payment are not available as Available Tax Increment and, therefore, are not pledged to secure the Bonds. Table I herein shows the amount of projected Available Tax Increment, which is net of amounts payable under the Tax Sharing Agreements and the Tax Sharing Statutes, as well as the obligations of the Agency to the Housing Fund.

The Agency entered into an agreement with the County of Riverside (the "County") dated as of December 15, 1987 (the "County Agreement"). The County Agreement provides: (1) from the first

\$7,000,000 in tax increment revenues realized annually in respect to the Project Area, that portion of the tax increment which would have been paid to the County had the Redevelopment Plan not been adopted shall be allocated to the Agency; (2) during the effective life of the Redevelopment Plan, in each Fiscal Year in which the tax increment revenues exceed \$7,000,000, all of such excess, but not more than \$5,000,000 in any one year up to a maximum of \$75,000,000 in the aggregate, shall be allocated to the County; and (3) all tax increment revenues in excess of that described under clauses (1) and (2) above shall be allocated in equal portions to the Agency and the County.

For the 2007-08 Fiscal Year, the County (which, for purposes of the County Agreement is treated as encompassing the County General Fund, the County Free Library and County Structural Fire) accounts for approximately 34% of Tax Increment Revenues from the Project Area. See APPENDIX G—"REPORT OF THE FISCAL CONSULTANT." The County Agreement contains provisions which the Agency believes should reduce the percentage of Tax Increment Revenues payable to the County from approximately 34% of Tax Increment Revenues to approximately 25% of Tax Increment Revenues; the County disputes this. The Agency has initiated litigation in July 2007 against the County seeking a judicial determination that the lower percentage should be used in determining payments to the County (*City of Moreno Valley, et al. v. County of Riverside*, Case No. 476473, Superior Court of California in and for the County of Riverside, the "Petition"). Projections of Available Tax Increment available for debt service on the Bonds as set forth in Table 1 hereof reflect the higher percentage asserted by the County. In the event the Petition is resolved in favor of the Agency, the amount of payments to the County would be reduced and the Available Tax Increment would increase accordingly.

The Agency entered into an agreement with the Riverside County Flood Control and Water Conservation District ("Flood") and the City dated as of April 12, 1988 (the "Flood Agreement"). The Flood Agreement provides: (1) commencing with fiscal year 1988-89 and continuing for each fiscal year until the total annual Tax Increment Revenue for a fiscal year is \$12 million, the County Auditor-Controller shall allocate to the Agency one hundred percent (100%) of Tax Increment Revenues that would have been paid to Flood had the Redevelopment Plan not been adopted (the "Flood Share"); (2) commencing with the first fiscal year in which the total annual Tax Increment is \$12 million, fifty percent (50%) of the Flood Share shall be disbursed to Flood by the County Auditor-Controller and fifty percent (50%) is to be disbursed by the County Auditor-Controller to the Agency; and (3) it is the intent of the parties to the Flood Agreement that over the effective life of the Redevelopment Plan, the cumulative amount of the Flood Share paid to the Agency shall not exceed the cumulative total of amounts approved by the Agency for certain improvements described in the Flood Agreement. Through Fiscal Year 2004-05, the Agency had received a cumulative total of \$4,828,695 as the Flood Share. In 2005-06 and 2006-07, the Agency received \$668,253 and \$868,244, respectively, as the Flood Share; approximately 50% of those two amounts are being held in reserve by the Agency and may be payable to Flood in the future. Total annual Tax Increment exceeded \$12 million in 2005-06. The Agency has informed the District that the Agency intends to cause the cumulative amount of the Flood Share paid to the Agency to be used for flood control facilities and improvements. In the event such revenues are not so applied, the amounts available to the Agency under the Flood Agreement may be reduced which would, in turn, reduce Available Tax Increment.

For the 2006-07 Fiscal Year, Flood accounted for approximately 5% of Tax Increment Revenues from the Project Area, see APPENDIX G—"REPORT OF THE FISCAL CONSULTANT."

Tax Sharing Statutes. The Tax Sharing Statutes set forth a requirement for payments of tax increment revenues to be made in prescribed amounts to taxing entities in the event certain amendments are made to a project area, such as amendments to a redevelopment plan to add territory. Similar provisions apply to amendments which extend the time during which a redevelopment agency may incur debt with respect to a project area, amendments to increase the number of dollars which may be allocated to a redevelopment agency, or amendments which extend the time during which a redevelopment plan is effective where the redevelopment plan being amended contains the provisions required by subdivision (b) of Section 33670 of the California Health and Safety Code. The time during which the Agency may incur debt as to the Project Area

expires as of December 29, 2007. It is possible that the Agency will consider and approve extending the time during which the Agency may incur debt as to the Project Area. In the event an amendment to the time to incur debt as to the Project Area is approved, or if another amendment described in this paragraph is approved, payments would be required to be made under the Tax Sharing Statutes. In general, the amounts to be paid pursuant to Tax Sharing Statutes are as follows:

- (a) commencing in the first fiscal year after territory is added or one or more of the limitations has been reached, as applicable, an amount equal to 25% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted;
- (b) in addition to amounts payable as described in (a) above, commencing in the 11th fiscal year after territory is added or the limitation has been reached, as applicable, an amount equal to 21% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (10th) fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted; and
- (c) in addition to amounts payable as described in (a) and (b) above, commencing in the 31st fiscal year after territory is added or the limitation has been reached, as applicable, an amount equal to 14% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (30th) fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted.
- (d) The City may elect to receive a portion of the tax increment generated in (a) above, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted.
- (e) The Agency may subordinate the amount required to be paid to an affected taxing entity to any indebtedness after receiving the consent of the respective taxing entity.

Projections of Available Tax Increment in Table 1 hereof do not incorporate the effect of the Tax Sharing Statutes.

Possibility of Claims of School District and Community College District to Certain Payments.

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

In the case of *Santa Ana Unified School District v. Orange County Development Agency*, the State Court of Appeals upheld the determination of a trial court that where the County of Orange had adopted a redevelopment project in 1986 and a school district which served the project area had failed to submit a resolution electing to receive a proportionate share of property tax revenues attributable to inflationary growth as determined under Section 110.1(f) of the Revenue and Taxation Code, the school district should nevertheless be deemed entitled to receive such revenues under Health and Safety Code Section 33676 as in effect as of 1986. Section 33676 has been the subject of amendments both before and after 1986 but was in substantially the same form between 1984 and 1993. In connection with the Redevelopment Plan, which was adopted on December 29, 1987, the Agency has no agreement with the Moreno Valley Unified School District

(the “School District”), the Riverside Community College District or the Riverside Superintendent of Schools, and none of those two entities submitted a resolution electing to receive payments under Health and Safety Code section 33676. If one or more of those entities were to receive additional moneys by virtue of the principle set forth in the Santa Ana Unified School District case in connection with the Project Area, this would reduce the Available Tax Increment. In October 2007, the School District informed the Agency that it has notified the County Auditor-Controller that it is electing to receive payments under the *Santa Ana Unified School District* case prospectively. The impact of such payments is described in APPENDIX G—“REPORT OF THE FISCAL CONSULTANT—Section G—Agency Obligations.”

The School District has also indicated that it intends to initiate discussions with the Agency regarding payments as to an unspecified period of time preceding the delivery of the School District’s notice to the County Auditor-Controller. In the event the Agency is required to make payments to the School District for a period preceding its notice to the County Auditor-Controller, this could reduce amounts of Available Tax Increment.

Auto Mall Bonds. In March 2000, Community Facilities District No. 3 of the City of Moreno Valley issued the Auto Mall Bonds, which are currently outstanding in the amount of \$4,185,000 and are scheduled to mature on September 1, 2030.

In connection with the Auto Mall Bonds, the Agency has committed to make payments under the Auto Mall Bonds from Tax Increment Revenues generated from the approximately 58.5 acre portion (the “Auto Mall Parcels”) of the Project Area which constitutes what is commonly known as the Moreno Valley Auto Mall. The obligation of the Agency to make payments with respect to the Auto Mall Bonds is limited to those tax increment revenues generated by the Auto Mall Parcels less a pro rata reduction for payments to the Agency’s Low and Moderate Income Housing Fund and payments under the County Agreement. It is unclear whether the Agency’s obligations with respect to the Auto Mall Bonds or contractual obligations in connection therewith constitute a senior pledge from such Tax Increment Revenues as generated. However, the projections of Available Tax Increment available for debt service on the Bonds treat such amounts as senior obligations. See Table 1 herein. That portion of scheduled annual debt service for the Auto Mall Bonds to be borne by the Agency, is expected to be approximately \$136,000 per year, with the highest amount for any such year estimated to be \$161,750 in 2029. The amount of approximately \$1,200,000 is on deposit with the trustee for the Auto Mall Bonds in the reserve account. If payments of principal and interest on the Auto Mall Bonds are made to and including September 1, 2010, and provided that the City and the Agency make payment of their respective amounts of debt service for the Auto Mall Bonds, the principal amount which will thereupon remain outstanding under the Auto Mall Bonds will be approximately \$1,325,000. The City intends to call the Auto Mall Refunding Bonds at the second optional call date therefor, March 1, 2011. In such event, additional Available Tax Increment ranging from approximately \$115,000 in 2012 to approximately \$161,000 in 2029 will become available.

Factors Affecting Agency Payments

The following factors could adversely affect the availability of tax increment revenues and the ability of the Agency to make payment of Agency Towngate Agreement Amounts to the District. A decrease in Agency Payments may increase the levy of the Special Taxes. In such event, however, the City will provide for any such adverse effect in its calculation of the levy of Special Taxes.

1. Any future decrease in the taxable valuation of the property, within the Redevelopment Project Area or in the applicable tax rates will reduce the tax increment allocated to the Agency and, correspondingly, could have an adverse impact on the ability of the Agency to make payments provided for under the Agency Towngate Agreement. The reduction of taxable values could be caused by economic factors beyond the Agency’s control, such as relocation out of the Project Area by one or more major property owners, the complete or partial destruction of the property caused by, among other things, an earthquake or other natural disaster, or other factors discussed under the caption “SPECIAL RISK FACTORS.”

2. Property tax limitations, broadened property tax exemptions, legislative measures, voter initiatives or provisions authorizing additional sources of income to other taxing agencies having the effect of reducing the property tax rate could reduce the amount of tax increment available.

3. As noted above, Article XIII A of the California Constitution imposes a limitation on the amount of *ad valorem* tax on real property to one percent of its full cash value, adjusted as noted above. Limitations on the valuation of property within the Project Area will have an adverse effect on the generation of tax increment.

4. Certain provisions of the Redevelopment Law were amended in 1993 by the passage of Assembly Bill 1290 (“AB 1290”) by the California Legislature, which became effective on January 1, 1994. AB 1290 provides that the time limit on the establishment of loans, advances and indebtedness (including bonded indebtedness) shall not exceed 20 years from the adoption of a redevelopment plan or January 1, 2004, whichever is later, exclusive of debt incurred and payable from the low and moderate income housing fund of a redevelopment agency or other debt relating to the fulfillment of an agency’s housing obligations under the Redevelopment Law. Under provisions of Redevelopment Law enacted in 2001 and effective January 1, 2002, (SB 211, chapter 741 §4, Statutes of 2001 sometimes referred to as “SB 211”), the City may approve an amendment to the Redevelopment Plan to eliminate the Agency’s time limit to incur indebtedness (an “SB 211 Amendment”). In the event such SB 211 Amendment is adopted, the Agency would be required to make additional payments to taxing agencies as described at Sections 33607.5 and 33607.7 of the Redevelopment Law and such payments to taxing agencies would have a priority over payments by the Agency to the District. The making of such payments would reduce amounts available to the Agency. Such payments to taxing agency are described further at APPENDIX G—“REPORT OF THE FISCAL CONSULTANT.” Projections at Table 1 hereof do not reflect any payments under SB 211.

Other Agreements Providing for Payments by the Agency

In connection with the development of the Mall, the Agency executed and delivered the following three promissory notes: (i) a Promissory Note dated December 11, 1992 in the original principal amount of \$3,000,000, in favor of TownGate Regional Mall Company; (ii) a Promissory Note dated December 11, 1992 in the original principal amount of \$6,000,000, in favor of TownGate Regional Mall Company; and (iii) a Promissory Note dated February 1, 1993 in the original principal amount of \$4,000,000, in favor of TownGate Regional Mall Company (collectively, the “Mall Notes”). The Mall Notes are payable from a portion of the Tax Increment Revenues received by the Agency from the Project Area. As of June 1, 2007, the outstanding balance under the Mall Notes was \$16,575,940. The Mall Notes have been purchased by the City of Moreno Valley. The right of the City to receive payments under the Mall Notes is subordinate to payment by the Agency of Agency Towngate Agreement Amounts to the District for the benefit of the Bonds.

The Agency, pursuant to various agreements with the City, is indebted to the City in the approximate amount of \$33,006,700, inclusive exclusive of the Mall Notes and all other agreements between the City and the Agency; all obligations of the Agency to the City are subordinate to payment by the Agency of Agency Towngate Agreement Amounts to the District for the benefit of the Bonds.

The Agency has entered into various agreements with private parties for the development, redevelopment or improvements to housing units to be available at affordable housing cost to households of limited income. The obligations of the Agency to make payment under such agreements do not provide for any pledge of Available Tax Increment and provide for payment using moneys from the Agency’s Low and Moderate Income Housing Fund (which do not constitute part of Available Tax Increment) or moneys under the federal HOME program.

Reduction in Taxable Value

Tax Increment Revenues allocated to the Agency are determined by the amount of incremental taxable value in the Project Area and the current rate or rates at which property in the Project Area is taxed. The reduction of taxable values of property in a project area caused by economic factors beyond the Agency's control, such as a relocation out of a project area by one or more major property owners, successful appeals by property owners for a reduction in a property's assessed value, blanket reductions in assessed value due to general reductions in property values or the complete or partial destruction of such property caused by, among other eventualities, an earthquake or other natural disaster, could cause a reduction in Available Tax Increment securing the Bonds; the Project Area is located within a seismically active area. Such reduction of Available Tax Increment could have an adverse effect on the Agency's ability to make timely payments under the Agency Towngate Agreement for the payment of principal of and interest on the Bonds. Also, assessments on the unsecured roll which involve fixtures and equipment that could be moved from the Project Area constitute approximately 4.2% of the total assessed value for the Project Area for 2006-07. Such unsecured assessed valuation may be more susceptible to fluctuation from year to year than valuation reflected on the secured roll.

Reduction in Inflationary Rate and Changes in Legislation; Further Initiatives

Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis.

Article XIII A of the California Constitution, which significantly affected the rate of property taxation, was adopted pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might alter the calculation of tax increment revenues, reduce the property tax rate, or broaden property tax exemptions. Future legislative reallocation of the 1% basic levy among the affected taxing entities could increase the taxes retained by certain taxing entities with a corresponding reduction in Available Tax Increment. See "SPECIAL RISK FACTORS" herein.

Educational Revenue Augmentation Fund

Tax Increment Revenues received by the Agency may be reduced by specific legislative shifts in property tax allocations. The State budget for fiscal year 1993-94 transferred \$2.6 billion to school districts from cities, counties and other local governments, including redevelopment agencies. As part of the budget's transfer of moneys to school districts, the State Legislature required redevelopment agencies to transfer approximately \$65 million to the Educational Revenue Augmentation Fund ("ERAF") in both fiscal years 1993-94 and 1994-95. The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment project areas on a collective basis, and was not allocated separately to individual project areas.

Faced with a projected \$23.6 billion budget gap for fiscal year 2002-03, the State Legislature adopted and the Governor signed AB 1768 requiring redevelopment agencies to pay \$75 million into ERAF. AB 1768 required the payment into ERAF in fiscal year 2002-03 only. As part of the overall legislation to enact the 2003-04 State Budget, the State enacted as urgency legislation, SB 1045, Chapter 260, Statutes of 2003 ("Chapter 260") as part of the 2003-04 State Budget requiring redevelopment agencies to pay into ERAF in fiscal year 2003-04 an aggregate amount of \$135 million. Chapter 260 required the payment into ERAF in fiscal year 2003-04 only. On May 13, 2004, the Governor issued the May Revision to the Governor's Budget. The May Revision provided, in part, for an ERAF shift to be borne by redevelopment agencies in the amount of \$250 million statewide for each of 2004-05 and 2005-06. In connection with ERAF obligations, the Agency made the following payments to ERAF: (i) \$172,943 for 2002-03; (ii) \$322,039 for 2003-04; (iii) \$609,304 for 2004-05; and (iv) \$682,410 for 2005-06, the last year for which an ERAF payment was required.

Based upon the foregoing, investors should assume that there may be reductions in Tax Increment Revenues available to the Agency, which will in turn reduce those moneys available as Available Tax Increment. The magnitude of such reductions cannot be quantified at this time, but it may be substantial and affect multiple years.

State Budget

The following information concerning the budgets of the State of California has been obtained from publicly available information which the City believes to be reliable; however, the City does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the Bonds are payable from any funds of the State, the City or any political subdivision of the State of California.

Economic Conditions in California. Since early 2001, the State has faced severe financial challenges, challenges which may continue for several years. The major forces involved in the State's economic downturn were sharp declines in the high technology, internet and telecommunications sectors, lower demand for exports, the effects of the events of September 11, rising unemployment levels and large stock market declines. The downturn resulted in a serious erosion of the State's tax revenues. A substantial portion of the tax revenue shortfall was attributable to a decline in personal income tax revenues, principally from reduced capital gains realizations and stock option income and increased unemployment. Although the State's tax revenues have rebounded since 2001, the State continues to face a structural budget imbalance where annual expenditures exceed annual revenues.

2008 Budget. On August 24, 2007, Governor Schwarzenegger signed the Fiscal Year 2008 Budget (the "2008 Budget"). The 2008 Budget projects State General Fund revenues and transfers for Fiscal Year 2008 of \$105.6 billion and State General Fund expenditures of \$102.3 billion with an expected year-end reserve balance of approximately \$4.1 billion. The 2008 Budget represents a 6.5% increase from the 2007 budget. The 2008 Budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget."

The California Legislative Analyst's Office (the "LAO") released its "Major Features of the 2007 California Budget" (the "Major Features Report") on August 31, 2007. The Major Features Report discusses operating shortfalls in the 2008 Budget and states that unlike the previous year's budget, the expenditures do not exceed revenues in the 2008 Budget. The Major Features Report goes on to state, however, that "[b]ased on the 2007-08 budget plan's policies ... the state would once again face operating shortfalls of more than \$5 billion in both 2008-09 and 2009-10." The LAO attributes this shortfall to the fact that many of the solutions enacted in the budget plan are of a one-time nature. The Major Features Report states that the 2008 Budget has proposed various solutions addressing the state's operating shortfalls, including solutions related to proposition 98, transportation, revenue assumptions, social services savings and governor's vetoes. The full text of the Major Features Report and other publications from the LAO can be viewed at the LAO website (www.lao.ca.gov).

The City currently believes that the provisions of the 2008 Budget will not be materially adversely affect the projections of Tax Increment Revenues set forth at Table 8 of the Report of the Fiscal Consultant.

Potential Impact of Future Events on the Agency. The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the Agency, the City and the District have no control. To the extent that the State budget process results in reduced revenues to the Agency, such reductions may have an adverse impact on the Agency to make payments under the Agency Towngate Agreement. The City and the District cannot predict the outcome of pending or future legal challenges related to the State budget, or whether the State Legislature (or the voters through the initiative process) will enact any other legislation requiring shifts of sales tax, property tax or

vehicle license fees to the State and/or to schools, in the current or future fiscal years and, if so, the effect on the revenues of the Agency. Given the level of the State of California's structural deficit, monies available to the Agency for payment under the Agency Towngate Agreement may be reduced in the future as a result of State budget issues.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the Owners of the Bonds to provide annually certain financial information and operating data, and to provide notices of the occurrence of certain enumerated events, if material. See APPENDIX C—"FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT." The covenants of the District have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The District has never failed to comply with any undertaking under the Rule.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. The amount of original issue discount that accrues to the owner of the Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision, in the matter of *Kentucky v. Davis*, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds

issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest on the Bonds. If the *Kentucky v. Davis* decision is affirmed by the United States Supreme Court, states such as California may be required to eliminate the disparity between the income tax treatment of out-of-state tax-exempt obligations and the income tax treatment of in-state tax-exempt obligations, such as the Bonds. The impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding this matter.

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

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond as to which any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. The form of Bond Counsel's opinion with respect to the Bonds is attached as Appendix D. Certain legal matters will be passed on for the Underwriter by its Counsel, Best Best & Krieger LLP and for the City, the Agency and the District by Robert D. Herrick, City Attorney and General Counsel. Bond Counsel expresses no opinion to the owners of the Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds, and expressly disclaims any duty to advise the owners of the Bonds as to matters related to the Official Statement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, Grant Thornton, LLP, independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of (a) certain computations relating to the adequacy of the Federal Securities (as defined in the Escrow Agreement) and the interest thereon to pay when due the redemption price, and interest due and to become due on the Prior Bonds on and prior to the redemption date thereof, and (b) the computations of the yields of the Bonds and of investments in each of the Escrow Fund.

LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds or the pledge of Special Taxes to repay the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened which questions the existence of the District or the District or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

RATINGS

Standard and Poor's Ratings Services ("S&P"), is expected to assign the Bonds a rating of "AAA", with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of principal and interest on the Bonds will be issued by the Bond Insurer. In addition, S&P has assigned an underlying rating of "A" to the Bonds. Such ratings reflect only the views of such organization and any desired explanation of the significance of such ratings 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 ratings will continue for any given period of time or that any 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 ratings may have an adverse effect on the market price of the Bonds.

S&P has indicated that it is currently updating its analysis of the collateralized debt obligations of asset-backed securities ("ABS CDOs") insured by the financial guaranty industry, as well as the potential implications for its ratings on various municipal bond insurers. Such updated capital adequacy analysis is understood by the City and the District to be in light of recent rating actions with respect to ABS CDOs having subprime mortgage-backed securities exposure. A possible result of such analysis may be that one or more of the financial guarantors being reviewed may no longer meet S&P's "AAA" capital guidelines. Were that to occur, the insurer financial strength ("IFS") rating of such financial guarantors could be placed on "Credit Watch Negative" and if adequate corrective action is not taken, the IFS rating of such financial guarantors (and therefore the rating on securities guaranteed by such financial guarantors, such as the Bonds) from S&P could be downgraded. Further information concerning this matter should be obtained from S&P.

UNDERWRITING

The Bonds are being purchased by E. J. De La Rosa & Co., Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$10,792,934.30 (being \$10,665,000.00 aggregate principal amount thereof, less Underwriter's discount of \$106,650.00 and plus net original issue premium of \$234,584.30). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

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

FINANCIAL INTERESTS

The fees being paid to the Bond Counsel, the Financial Advisor and Disclosure Counsel are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

PENDING LEGISLATION

The District is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by the Finance Director of the City has been duly authorized by the City Council of the City acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 87-1
(TOWNGATE), CITY OF MORENO VALLEY,
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

By: /s/ Steven M. Chapman
Finance Director/City Treasurer

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APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

CITY OF MORENO VALLEY COMMUNITY FACILITIES DISTRICT NO. 87-1 (TOWNGATE)

Introduction

The special tax applicable to each Assessor's Parcel in the District shall be levied by the City by applying the appropriate rate for Developed Property and Undeveloped Property as herein defined. Developed Property shall be the property within the District for which a Certificate of Occupancy or Building Permit Finalization has been issued or for which a determination of suitability of use has been made, on or before July 1 of any calendar year. All other property within the District shall be deemed Undeveloped Property.

All property within the District except that exempted by law shall be taxed as herein provided. As of July 1 of each year, all property in the District not exempt from the special tax of the District shall be identified and designated as either Developed Property or Undeveloped Property. Simultaneously, each Assessor's Parcel within the boundaries of the District shall be identified as being within Planning Units One through Seven as shown on the map of Specific Plan No. 200 (the "Specific Plan") approved for the property within the District by the City.

Special Tax Levy

The special tax shall be imposed, administered, levied and collected annually as follows:

1. The District shall be divided into two zones, as follows:
 - (a) Zone A shall include Planning Units Two, Three, Five and Six which will be served by the Public Facilities constructed and/or acquired by use of the proceeds of the 1988 Bonds.
 - (b) Zone B shall include all Planning Units in the District, which are Planning Units One, Two, Three, Four, Five, Six and Seven which will be served by the Public Facilities constructed and/or acquired by the use of the proceeds of the 1988 Bonds and the 1991 Bonds.
2. The City shall ascertain the amount of interest, principal and administrative expense for the levy and collection of the Special Tax that will be payable by the District in the next fiscal year ("District Fiscal Obligation") for the Series A and Series B Bonds. For this purpose, administrative expense shall be only those ordinary and reasonable expenses necessary to properly administer the levy and collection of the Special Tax of the District.
3. The City shall ascertain for the next fiscal year the amounts of contributions available to the District from other sources (the "Contributions").
4. The City shall subtract the Contributions, if any, from the District Fiscal Obligation. The result from that computation is the amount that shall be levied and collected within the District in the next fiscal year as hereinafter provided ("Special Tax Levy").

5. The Special Tax Levy for Zone A shall be levied as to Developed Property and Undeveloped Property as follows:

The Special Tax Levy shall first be uniformly applied to the Developed Property in an amount not to exceed \$11,500.00 per net acre. The maximum special tax of \$11,500.00 shall be applied to the Developed Property prior to the levy of any special tax on the Undeveloped Property. The remaining Special Tax Levy, if any, shall then be uniformly applied to the Undeveloped Property within Zone A which amount shall not exceed \$11,500.00 per net acre. Should the special tax on Developed Property within Zone A be less than \$11,500.00 per net acre, such Special Tax shall not subsequently be increased solely as result of the sale of the 1991 Bonds. The Special Tax on Developed Property within Zone A shall not be reduced below \$7,800.00 prior to the sale of 1991 Bonds, except as a result of Contributions available to the District. For this purpose, the minimum special tax of \$7,800.00 shall be reduced by Contributions as follows: $\$7,800.00 \times [1 - (\text{Contribution}/\$2,000,000.00)] = \text{adjusted minimum special tax}$.

6. The Special Tax levy for Zone B shall be levied as to Developed Property and Undeveloped Property as follows:

At such time as the 1991 Bonds have been sold, the principal and interest for the 1991 Bonds will be included in the District Fiscal Obligation and the Special Tax Levy shall be allocated to the Planning Units within Zone B of the District, which are all the Planning Units within the District. The Special Tax Levy shall first be uniformly applied to the Developed Property in an amount not-to-exceed \$11,500.00 per net acre. The maximum special tax of \$11,500.00 shall be applied to the Developed Property prior to the levy of any Special Tax on the Undeveloped Property. The remaining Special Tax Levy if any, shall then be uniformly applied to the Undeveloped Property on a net acreage basis within Zone B. Zone A shall become a part of Zone B in all respects except that (i) the Special Tax levied on Developed Property in Zone A will not be increased solely by reason of the sale of the 1991 Bonds; and (ii) the minimum tax of \$7,800.00 per net acre for Developed Property within Zone A will no longer be applicable.

7. In the event that any parcel within a Planning Unit of the District becomes exempt from the levy and collection of the Special Tax Levy, the authorized indebtedness related to such parcel (including the proportionate share of the future indebtedness related to the Series A and Series B Bonds) is intended to continue to be due and payable at the same rate and time as the Special Tax, or due and payable in full from the acquiring party prior to and as a condition of the change in designated land use or transfer of ownership.

8. Owners of property may discharge their Special Tax Obligation by paying off such obligation in cash as hereinafter discussed.

Payoff of Special Tax Obligation

The District will permit property owners of both Developed and Undeveloped Property to discharge their Special Tax obligation by paying off such obligation in cash. The amount of such payment shall be at least sufficient to provide for the defeasance or payment in full of such property owner's proportionate share of the Series A and Series B Bonds.

It is the responsibility of the property owner to pay the current year's Special Tax obligation, if any, and to cure any delinquent Special Tax installments prior to the District's accepting the payoff of the Special Tax obligation.

Upon City staff recommendation, or upon request by a property owner within the District, the Legislative Body may periodically consider reasonable modifications of the payoff formula in consideration of the changes in, or resolution of, contingencies and unknown items inherent in the District. At least fifteen (15)

days prior to the consideration of the modifications by the Legislative Body, the District shall mail written notice of the proposed modifications by first class mail to all property owners within the District who have filed with the City Clerk's office written request for such notice.

Additional Disclosure

1. The maximum special tax of \$11,500.00 per net acre is about one and one-half times the estimated average debt service per acre, assuming an interest rate of approximately 8% per annum.

2. Since the annual Special Tax Levy (Net of Contributions) is first applied to the Developed Property at the maximum Special Tax rate of \$11,500.00 per net acre prior to the levy of any Special Tax on the Undeveloped Property the following are noted:

(a) the initial properties developed may pay a larger share of the financing cost of the Public Facilities than those properties subsequently developed; and

(b) contributions made to the District from property tax increment or other sources will first reduce the Special Tax upon the Undeveloped Property and thus, the maximum special tax on Developed Property of \$11,500.00 per acre will not be reduced until the Special Tax upon the Undeveloped Property is eliminated.

3. The Developed Property within the boundaries of the District is subject to the maximum Special Tax of \$11,500.00 per net acre per year. However, the actual Special Tax for the Developed Properties may be less than the maximum special tax if:

(a) more than two thirds of the acreage within the District is developed; and/or

(b) contributions from property tax increment or other sources for annual debt service are in excess of those required to eliminate the Special Tax on Undeveloped Property; and/or

(c) bonds are issued in amounts less than currently authorized; and/or

(d) market interest rates at the time bonds are issued are less than those used in developing the maximum special tax.

Net Acreage - Developed Property

Net Acreage will be Basic Acreage adjusted to eliminate any of the following:

- Easements for public streets which are held by a public agency.
- Easements for public purposes which effectively restrict any private beneficial use of the land such as open flood control channels, sumps, etc.
- Easements for power transmission line purposes wherein surface usages other than agriculture are prohibited.
- Any easement which effectively excludes the use of land surface for purposes directly or indirectly related to the property paying the Special Tax.

All other uses will be included in calculating the Net Acreage including, but not limited to:

- Public or private alleys providing access to the properties within the District.

- All underground easements where surface parking rights are retained.
- Open spaces.
- Private parks.
- Common areas including common operational areas such as refuse storage facilities, etc.

The Special Tax will not be individually applied to separate parcels which would have no intrinsic value in the event of a tax sale. Where open spaces, access ways other than streets, private parks, common areas, etc., are a part of or are directly associated with an Assessor's Parcel, the area will be included in the area of the Assessor's Parcel. Where such uses are separate fee owned Assessor's Parcels, the acreage of such parcels will be proportionally assigned to the properties which they are intended to serve and benefit.

Net Acreage - Undeveloped Properties

The method of calculating the Net Acreage for Undeveloped Properties will be the same as that used for Developed Properties except that no acreage allocations for common areas, open space, private parks or items related to development will be made to Undeveloped Properties.

Timing of Levy of the Special Tax

It is intended that any Assessor's Parcel, when all or any portion of it has been developed to its final use, shall then qualify as Developed Property under the Special Tax formula. An explanation of this intent follows.

The Special Tax shall be levied for the fiscal year immediately following completion of a structure and issuance by the City of a Certificate of Occupancy or Building Permit Finalization for the structure. A Certificate of Occupancy shall be defined as the procedure by which the City Building Department finds the structure is complete and ready for human occupancy and authorizes the utility companies to activate their services to the structure.

The authorization of the special tax shall become effective upon the finalization of the building permit by the City Building Department for facilities occupying a separate Assessor's Parcel which do not require a Certificate of Occupancy, such as parking lots, recreational facilities, etc., but which do require issuance of a building permit. Building Permit Finalization shall be defined as the completion of final inspection and approval by the City Building Department for the intended use.

For facilities occupying a separate Assessor's Parcel which will require neither a Certificate of Occupancy nor a Building Permit, but for which the area upon which they are located will become a factor in the determination of the Special Tax Levy, the Special Tax Levy will become effective when the City Engineer has determined its suitability for its intended use.

Developed Property

Developed Property shall be defined as the entire area of an Assessor's Parcel upon which any Certificate of Occupancy or Building Permit Finalization has been issued in accordance with the above definitions whether or not the program for that Assessor's Parcel is fully complete. The property owner may, however, file a parcel map for the purpose of financing if this condition unnecessarily accelerates the Special Tax on such parcel.

Planning Units

Those specific planning units designated 1 through 7, as shown on the map of the Specific Plan No. 200 approved for the development designated Towngate, which has been approved by the City. A copy of Specific Plan No. 200 is on file in the office of the City Clerk.

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APPENDIX B

SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of their provisions. All capitalized terms not defined in the body of the Official Statement have the meaning set forth in the Indenture.

DEFINITIONS

“Act” means the Mello Roos Community Facilities Act of 1982, as amended, Sections 53311 et seq. of the California Government Code.

“Administrative Expense Account” means the account by such name in the Special Tax Fund created and established pursuant to the Indenture.

“Administrative Expense Cap” means the amount of \$137,250 for the 2007-08 Fiscal Year, with projected annual increases of two percent (2%) of the amount of the administrative expenses for the preceding year.

“Administrative Expenses” means the administrative costs incurred by the City staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees for credit enhancement for the Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and arbitrage rebate, costs incurred by the District in pursuit of State funding, the premium for a reserve fund policy and any other costs otherwise incurred by the Agency staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

“ADP Amounts” means such amounts, if any, as are received by the Trustee from the City as ADP Payments.

“ADP Payments” means payments, if any, made by the City to the Trustee which are designated in writing by the City as ADP Payments.

“Agency” means the Community Redevelopment Agency of the City of Moreno Valley.

“Agency Towngate Agreement” means an agreement dated as of October 1, 2007 by and between the Agency and the District, entitled “Agency Towngate Agreement.”

“Agency Towngate Agreement Amounts” means such amounts as are paid by the Agency to the District under the Agency Towngate Agreement.

“Alternative Penalty Account” means the account by such name created and established in the Rebate Fund pursuant to the Indenture.

“Annual Debt Service” means the principal amount of any Outstanding Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

“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:

(1) For all purposes including defeasance investments in refunding escrow accounts (the Trustee is entitled to rely upon investment direction of the District as a certification that such investment is an Authorized Investment):

(a) cash; or

(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 based by the full faith and credit of the U.S., including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- 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).

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA’s), Federal Housing Administration and Federal Financing Bank;

(b) 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: senior debt obligations rated “Aaa” by Moody’s or “AAA” by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of the Student Loan Marketing Association (SLMA);

(c) U.S. dollar denominated deposit accounts and bankers’ acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America 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

(i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P or Moody’s or any successors thereto; or

(ii) (1) 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 (1)(b) 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 (2) 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;

(g) municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;

(h) investment agreements (supported by appropriate opinions of counsel);

(i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name;

(j) the City of Moreno Valley Investment Fund; and

(k) other forms of investments (including repurchase agreements) approved by the City and, for so long as the Bond Insurance Policy remains in effect, the Bond Insurer.

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

(a) for the purpose of determining the amount of 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, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

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

(c) As to any investment not specified above: the value thereof established by prior agreement between the District and the Trustee.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

“Authorized Representative of the District” means the City Manager, Assistant City Manager, Deputy City Manager or Finance Director of the City or any other person or persons designated by the City Council and authorized to act on behalf of the District by a written certificate signed on behalf of the City by the Finance Director of the City and containing the specimen signature of each such person.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Insurance Policy” means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of the principal of and interest on the Bonds as provided therein.

“Bond Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto.

“Bond Register” means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.

“Bondowner” or “Owner” means the person or persons in whose name or names any Bond is registered.

“Bond Year” means the twelve month period commencing on December 2 of each year and ending on December 1 of the following year, except that the first Bond Year for the Bonds shall begin on the Delivery Date and end on the first December 1 which is not more than 12 months after the Delivery Date.

“Bonds” means the District’s City of Moreno Valley Community Facilities District No. 87 1 (Towngate) 2007 Special Tax Refunding Bonds.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

“Certificate of the Finance Director of the City” means a written certificate or warrant request executed by the Finance Director of the City, or his or her written designee, on behalf of the District.

“Certificate of the Special Tax Administrator” means a certificate of City staff or a consultant engaged by the City to administer the calculation and collection of the Special Taxes, or any successor entity acting in such capacity.

“City” means the City of Moreno Valley, California.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement dated as of October 1, 2007 between the District and Wells Fargo Bank, National Association, as dissemination agent, together with any amendments thereto.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants, reserve fund policy premiums, the amounts necessary to create and replenish any necessary reserve accounts, remarketing, credit enhancement, District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of the Finance Director of the City.

“Delivery Date” means, for each series of Bonds, the date on which such series of Bonds were issued and delivered to the initial purchasers thereof.

“District” means Community Facilities District No. 87-1 (Towngate) of the City of Moreno Valley established pursuant to the Act and the Resolution of Formation.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“DTC Participants” means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

“Escrow Agreement” means the Escrow Agreement, dated as of October 1, 2007, by and between the District and the Escrow Bank.

“Escrow Bank” means Wells Fargo Bank, National Association, and its successors and assigns, as escrow bank under the Escrow Agreement.

“Federal Securities” means any of the following: (a) cash or (b) obligations of, or obligations guaranteed as to the principal and interest by the U.S. or any agency or instrumentality thereof, when such obligations are based by the full faith and credit of the U.S. including U.S. treasury obligations, all direct or fully guaranteed obligations, Farmers Home Administration, Guaranteed Title XI financing, Government National Mortgage Association (GNMA) and state and local government series.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

“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 District, who, or each of whom:

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

“Indenture” means the Indenture, together with any Supplemental Indenture.

“Interest Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Interest Payment Date” means June 1 and December 1 commencing June 1, 2008.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds by adding the following for each Bond Year:

(1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

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

“National Repositories” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository
P. O. Box 840
Princeton, New Jersey 08542-0840
Phone: (609) 279-3200
Fax: (609) 279-5962

Kenny Information Systems, Inc.
Attention: Kenny Repository Service
65 Broadway, 16th Floor
New York, New York 10006
Phone: (212) 770-4595
Fax: (212) 797-7994

Thompson NRMSIR
Attention: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10014
Phone: (212) 807-3814
Fax: (212) 989-9282

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: 201-346-0701
Fax: 201-947-0107
E-mail: nrmsir@dpcdata.com

“Net Taxes” means Gross Taxes minus amounts set aside to pay Administrative Expenses.

“Ordinance” means Ordinance No. 151 passed and adopted by the City acting as the Legislative Body of the District on December 8, 1987.

“Outstanding” or “Outstanding Bonds ” means all Bonds theretofore issued by the District, except: (1) Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture; (2) Bonds for

payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture; and (3) Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

“Parity Bonds” means all bonds, notes or similar evidences of indebtedness issued after the execution of the Indenture, payable out of Net Taxes and which, as provided in the Indenture or any Supplemental Indenture, rank on a parity with the Bonds or any Parity Bonds issued pursuant to the Indenture.

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Prepayments” means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in the District made in accordance with the RMA.

“Principal Account” means the Account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Principal Office of the Trustee” means the office of the Trustee located in Los Angeles, California or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued (except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted).

“Prior Bonds” means the City of Moreno Valley Towngate Community Facilities District No. 87-1 Special Tax Refunding Bonds, Series A, originally issued in the aggregate principal amount of \$14,170,000 (the “1994A Bonds”) and the City of Moreno Valley Towngate Community Facilities District No. 87-1 Special Tax Refunding Bonds, Series B, originally issued in the aggregate principal amount of \$8,530,000 (the “1994B Bonds”).

“Rating Agency” means either Moody’s or Standard & Poor’s, or both, as the context requires.

“Rebate Account” means the account by such name created and established in the Rebate Fund pursuant to the Indenture.

“Rebate Fund” means the fund by such name created and established pursuant to the Indenture.

“Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Redemption Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

“Representation Letter” means the representation letter or letters from the District to DTC.

“Reserve Account” means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

“Reserve Credit Facility” means a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Account, if any, provide an aggregate amount equal to the Reserve Requirement, so long as the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in the highest rating category by A. M. Best & Company, Standard & Poor’s Corporation or Moody’s Investors Service.

“Reserve Requirement” means, as of any date of calculation by the District, an amount equal to the least of (1) 10% of the original proceeds of the Bonds, less original issue discount, if any, plus original issue premium, if any, or (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds. The Reserve Requirement will be initially satisfied with cash.

“Resolution of Formation” means Resolution No. 87-99 adopted by the City acting as the Legislative Body of the District on October 20, 1987, pursuant to which the City acting as the Legislative Body of the District formed the District.

“RMA” means the Rate and Method of Apportionment of Special Tax approved by the qualified electors of the District at the November 4, 1987 election, as further amended from time to time.

“Sinking Fund Payment” means the annual payment in those years indicated in the Indenture to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Indenture to retire the Term Bonds and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

“Six-Month Period” means the period of time beginning on the Delivery Date of each series of Bonds, as applicable, and ending six consecutive months thereafter, and each six month period thereafter until the latest maturity date of the Bonds (and any obligations that refund an issue of the Bonds).

“Special Taxes” means the taxes authorized to be levied by the District in accordance with the Resolution of Formation, the RMA, the Ordinance, the Act and the voter approval obtained at the November 4, 1987 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the Bonds, including without limitation any Prepayments.

“Special Tax Fund” means the fund by such name created and established pursuant to the Indenture.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of McGraw Hill, its successors and assigns.

“Supplemental Indenture” means any supplemental indenture entered into in accordance with the provisions of the Indenture amending or supplementing the Indenture.

“Surplus Fund” means the Fund by such name created and established pursuant to the Indenture.

“Tax Certificate” means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Term Bonds” means the Bonds maturing on December 1, 20__.

“Trustee” means Wells Fargo Bank, National Association, a national banking association, duly organized and existing under and by virtue of the laws of the United States of America, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

“Underwriter” means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of a series of the Bonds.

GENERAL AUTHORIZATION AND BOND TERMS

Type and Nature of Bonds. Neither the faith and credit of the City nor the taxing power of the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Indenture. All Agency Towngate Agreement Amounts received by the District shall be deposited in the Special Tax Fund. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the forfeiture of any District or City property. The principal of and interest on the Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District’s property, or upon any of its income, receipts or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Indenture and the Act, set aside for the payment of the Bonds and interest thereon and neither the members of the legislative body of the District or the City Council nor any persons executing the Bonds, are liable personally on the Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in the Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds, or for the performance of any covenants contained in the Indenture. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Equality of Bonds and Pledge of Net Taxes and Other Amounts in the Special Tax Fund. Pursuant to the Act and the Indenture, the Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of (including Sinking Fund Payments) the Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are set aside for the payment of the Bonds under the Indenture. The Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge shall constitute a first lien on such amounts. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund shall no longer be considered to be pledged to the Bonds, and none of the Rebate

Fund, the Administrative Expense Account of the Special Tax Fund nor the Costs of Issuance Fund shall be construed as a trust fund held for the benefit of the Owners.

Place and Form of Payment. Principal of, premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. The principal of the Bonds and any premiums due upon the redemption thereof shall be payable by check of the Trustee upon presentation and surrender thereof at the Principal Office of the Trustee, or at the designated office of any successor Trustee. Interest on any Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Trustee mailed on the applicable Interest Payment Date by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of a series of the Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account within the United States designated by such Owner.

Form of Bonds. The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. Until definitive Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of the Indenture as definitive Bonds. If the District issues temporary Bonds, it shall execute and furnish definitive Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond may be surrendered to the Trustee at its office, without expense to the Owner, in exchange for a definitive Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds so surrendered shall be cancelled by the Trustee and shall not be reissued.

Execution and Authentication. The Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Finance Director of the City and by the manual or facsimile signature of the City Clerk, or any duly appointed deputy City Clerk, in their capacity as officers of the District, and the seal of the District (or a facsimile thereof) may be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the City Clerk. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed have been authenticated and delivered by the Trustee (including new Bonds delivered pursuant to the provisions of the Indenture with reference to the transfer and exchange of Bonds or to lost, stolen, destroyed or mutilated Bonds), such Bonds shall nevertheless be valid and may be authenticated and delivered as provided in the Indenture, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office.

Only the Bonds as shall bear thereon such certificate of authentication in the form set forth in the Indenture or, if applicable, a Supplemental Indenture shall be entitled to any right or benefit under the Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee.

Bond Register. The Trustee will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in the Indenture, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds as provided in the Indenture.

The District and the Trustee may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Trustee shall not be affected by any notice to the contrary. The District and the Trustee may rely on the address of the

Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Trustee of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Registration of Exchange or Transfer. Subject to the limitations set forth in the following paragraph, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the Trustee, accompanied by delivery of written instrument of transfer in a form approved by the Trustee and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds for other authorized denominations of the same maturity and series. The Trustee shall not collect from the Owner any charge for any new Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer or exchange shall be paid by the District. Whenever any Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, as applicable, of the same series and maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of (i) Bonds from the Record Date next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

Mutilated, Lost, Destroyed or Stolen Bonds. If any Bond shall become mutilated, the District will execute, and the Trustee will authenticate and deliver, a new Bond of like tenor, date, series and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to the Indenture. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the District and the Trustee shall be given, the District shall execute and the Trustee will authenticate and deliver, a new Bond of like tenor, maturity and series, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds issued under the Indenture. The Trustee will not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds.

Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

Creation of Funds; Application of Proceeds. There is created under the Indenture and established and shall be maintained by the Trustee the following funds and accounts:

(a) The City of Moreno Valley Community Facilities District No. 87-1 (Towngate) Special Tax Fund (the “Special Tax Fund”) (in which there will be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).

(b) The City of Moreno Valley Community Facilities District No. 87-1 (Towngate) Rebate Fund (the “Rebate Fund”) (in which there will be established a Rebate Account and an Alternative Penalty Account).

(c) The City of Moreno Valley Community Facilities District No. 87-1 (Towngate) Surplus Fund (the “Surplus Fund”).

(d) The City of Moreno Valley Community Facilities District No. 87-1 (Towngate) Costs of Issuance Fund (the “Costs of Issuance Fund”).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and will disburse investment earnings thereon in accordance with the provisions of the Indenture.

In connection with the issuance of any series of the Bonds, the Trustee, at the written direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds.

Deposits to and Disbursements from Special Tax Fund. The Trustee shall, on each date on which the Special Taxes are received from the District and on each date the Trustee receives from the Agency a payment for the benefit of the District, deposit the Special Taxes, amounts received from the Agency for the benefit of the District and any ADP Amounts in the Special Tax Fund to be applied in accordance with the terms of the Indenture. The Trustee will transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to:

- (a) The Administrative Expense Account of the Special Tax Fund;
- (b) The Interest Account of the Special Tax Fund;
- (c) The Principal Account of the Special Tax Fund;
- (d) The Redemption Account of the Special Tax Fund;
- (e) The Reserve Account of the Special Tax Fund;
- (f) The Rebate Fund; and
- (g) The Surplus Fund.

At the maturity of all of the Bonds and, after all principal and interest then due on the Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in any Fund and any accounts therein may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund. The Trustee will not less often than annually transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of an Authorized Representative of the District; provided, however, that the total deposit

made to the Administrative Expense Account in any Bond Year shall not exceed the Administrative Expense Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds due in such Bond Year or unless such amounts are transferred to pay expenses directly related to the collection of delinquent Special Taxes. In the event that the Trustee has not received written direction from the District prior to May 1 of a year as to the amount to be deposited to the Administrative Expense Account of the Special Tax Fund, the Trustee will transfer an amount equal to one-half of the Administrative Expense Cap to the Administrative Expense Account of the Special Tax Fund and notify the District, in writing, of such transfer. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized Representative of the District. An Authorized Representative of the District may direct the Trustee, in writing, to transfer all or a portion of the balance in the Administrative Expense Account of the Special Tax Fund to another Fund or Account or to the Agency or a third party.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds will be made when due, after making the transfer required by the Indenture, at least five Business Days prior to each June 1 and December 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date will be equal to the installment of interest due on the Bonds on said Interest Payment Date and any installment of interest on the Bonds due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to December 1 of each year, commencing December 1, 2008, will equal the principal payment due on the Bonds maturing on such December 1, any Sinking Fund Payment due on December 1 and any principal payment or Sinking Fund Payment on the Bonds due on a previous December 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds as the same become due at maturity and by Sinking Fund Payment.

Redemption Account of the Special Tax Fund.

(a) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Indenture, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Indenture or in any Supplemental Indenture, upon the written direction of an Authorized Representative of the District, the Trustee will transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Moneys set aside in the Redemption Account will be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of the principal of and

premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds and to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds in the manner provided in the Indenture. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture or in the applicable Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the Bonds on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. There will be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. Notwithstanding any provision of the Indenture to the contrary, the amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account will be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on any Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor and for the purpose of making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District. If the amounts in the Interest Account or the Principal Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account for deposit in the Interest Account and the Principal Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Indenture, the Trustee will transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Interest Account or the Principal Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District will include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with an optional redemption of the Bonds under the Indenture or in accordance with any Supplemental Indenture, or a partial defeasance of the Bonds in accordance with the Indenture, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for a series of the Bonds, amounts in the Reserve Account may be applied, upon direction of the District, to pay the principal of and interest due on such series of the Bonds in such final Bond Year. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each June 1 and December 1 and transferred to the Interest Account of the Special Tax Fund.

(d) The District may at any time elect to maintain the Reserve Requirement in whole or in part by obtaining a Reserve Credit Facility. In the case of such an election, the District will direct the Trustee to acquire such Reserve Credit Facility and to pay from money in the Reserve Account the costs

associated with the acquisition of the Reserve Credit Facility. Any money in the Reserve Account after the acquisition of such Reserve Credit Facility and payment of the appropriate costs shall be transferred to or at the direction of the District for its lawful purposes. In the event any such Reserve Credit Facility is so acquired, the Trustee shall draw on it in accordance with its terms (i) when and if moneys are needed pursuant to the provisions of this paragraph; provided, however, that the Trustee must make demand at least five (5) days prior to the date that such funds are needed; and (ii) prior to the stated maturity of such Reserve Credit Facility. In the event the Reserve Requirement is satisfied by a combination of cash and a Reserve Credit Facility, the Trustee shall draw down completely on the cash on deposit for such purpose in the Reserve Account before any demand is made on the Reserve Credit Facility.

(e) The Reserve Account will initially be funded by the deposit of cash in an amount equal to the Reserve Requirement. The Indenture may be amended without the consent of the Owners to provide for the delivery of a Reserve Credit Facility; provided, however, the payment of amounts drawn by the Trustee on the Reserve Credit Facility and any related fees or expenses shall be subordinate to the payment of the principal of and interest on the Bonds.

Rebate Fund. The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternative Penalty Account shall be established for each series of Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to a series of the Bonds shall be governed by the Indenture and the Tax Certificate for such series, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds will not be adversely affected if such requirements are not satisfied.

Surplus Fund. After making the transfers required to the Administrative Expense Account, Interest Account, Principal Account, the Redemption Account, the Reserve Account and the Rebate Fund, as soon as practicable after each December 1, and in any event prior to each January 1, the Trustee will transfer all remaining amounts in the Special Tax Fund, if any, to the Surplus Fund, unless directed, in writing, by an Authorized Representative of the District to return a specified amount in the Special Tax Fund. Moneys deposited in the Surplus Fund shall be transferred by the Trustee, at the written direction of the District, (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses. In the event unexpended amounts remain on deposit in the Surplus Fund after the foregoing transfers, if any, the District will apply such unexpended amounts, in its sole discretion, either (i) to reduce the next fiscal year's Special Tax levy by depositing such amount in the Special Tax Fund, or (ii) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds, upon the written direction of the District, the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the series of Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect

the exclusion from gross income for federal income tax purposes of interest on the Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Costs of Issuance Fund.

(a) The moneys in the Costs of Issuance Fund will be applied exclusively to pay the Costs of Issuance. Amounts for Costs of Issuance shall be disbursed by the Trustee from the Costs of Issuance Fund pursuant to a Certificate of the Finance Director of the City, which must be submitted in connection with each requested disbursement. Each such Certificate of the Finance Director of the City shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

(b) Upon receipt of a Certificate of the Finance Director of the City that all or a specified portion of the amount remaining in the Costs of Issuance Fund is no longer needed to pay Costs of Issuance, the Trustee will transfer all or such specified portion of the moneys remaining on deposit in the Costs of Issuance Fund to the Surplus Fund. Once there is no amount remaining in the Costs of Issuance Fund, it shall be closed.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of an Authorized Representative of the District in accordance with the limitations set forth below only in Authorized Investments which will be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund, Surplus Fund, and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied as set forth in the Indenture, and (iii) all other investment earnings shall be deposited in the Costs of Issuance Fund until the balance therein equals zero and thereafter shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Indenture may be invested by the Trustee on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or are available for withdrawal from the Authorized Investment without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due.

(b) Moneys in the Costs of Issuance Fund shall be invested in Authorized Investments which will by their terms mature, or are available for withdrawal without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund. Notwithstanding anything in the Indenture to the contrary, amounts in the Costs of Issuance Fund on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(c) One half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase by the Trustee, and one half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than three years from the date of purchase by the Trustee; provided that such amounts may be invested in an Authorized Investment to the final maturity of Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to a series of the Bonds shall mature later than the respective final maturity date of the Bonds of such series. Notwithstanding

anything in the Indenture to the contrary, amounts in the Reserve Account on each Delivery Date for a series of the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clauses (1) and (2)(e) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government. The Trustee shall be deemed conclusively to have complied with any yield restrictions if it follows the directions of the District.

(e) In the absence of written investment directions from the District, the Trustee shall invest solely in Authorized Investments specified in clause (2)(e) of the definition thereof.

The Trustee shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof and marked to market at least annually. In making any valuations of investments under the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything in the Indenture to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture. The Trustee may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments. Any Authorized Investments that are registrable securities will be registered in the name of the Trustee.

For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture (other than the Rebate Fund) but shall account for each separately.

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

The District acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

COVENANTS AND WARRANTY

Warranty. The District shall preserve and protect the security pledged under the Indenture to the Bonds against all claims and demands of all persons.

Covenants. So long as any of the Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Trustee, and the District will have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the

Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and of the Bonds issued under the Indenture.

The District has covenanted that so long as the Bonds are outstanding, the District will not issue bonds senior to the Bonds (other than Parity Bonds issued under the Indenture) secured by amounts payable under the Agency Towngate Agreement.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, except bonds refunding the Bonds as set forth in the Indenture. Nothing shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds.

Levy of Special Tax. The District has covenanted to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available by the District for such purpose (including without limitation amounts paid under the Agency Towngate Agreement), to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

Commence Foreclosure Proceedings. The District has covenanted for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$1,000 by the December 1 following the close of each Fiscal Year in which such Special Taxes were due, and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the December 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 90% of the total Special Taxes levied for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings in accordance with the provisions of the Act and applicable law until the delinquent Special Taxes are paid.

The District has covenanted that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund.

Payment of Claims. The District 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 Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds then Outstanding; provided that nothing contained in the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours, with reasonable prior notice, be subject to the

inspection of the Owners of not less than 10% of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on any Bonds will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically has covenanted, without limiting the generality of the foregoing, as follows:

(1) *Private Activity.* The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other monies or property which would cause any Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code;

(2) *Arbitrage.* The District will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause any Bonds issued on a tax-exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(3) *Federal Guaranty.* The District will make no use of the proceeds of the Bonds or take or omit to take any action that would cause any Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(4) *Information Reporting.* The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(5) *Hedge Bonds.* The District will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause any Bonds issued on a tax-exempt basis for federal income tax purposes to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on any Bonds issued on a tax-exempt basis; and

(6) *Miscellaneous.* The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District for each series of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture, including payment of amounts required to pay any rebate amounts owing to the United States on the Bonds.

(7) *Other Tax Exempt Issues.* The District will not use proceeds of other tax exempt securities to redeem any Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on any Bonds issued on a tax-exempt basis.

(8) *Subsequent Opinions.* If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation (“SYCR”), where such opinion is required in connection with a change or amendment to the Indenture or the procedures set forth in a Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes.

Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in California have from time to time been at levels requiring the levy of special taxes at the maximum authorized

rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District has determined that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds. The District has determined it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District has covenanted, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District.

Covenant to Defend. The District has covenanted that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified above or to limit the power of the District to levy the Special Taxes for the purposes set forth above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

Limitation on Right to Tender Bonds. The District has covenanted that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds when due.

Covenant Concerning Agency Towngate Agreement. The District has covenanted that so long as the Bonds are outstanding, the District will not issue bonds senior to the Bonds or on a parity with the Bonds (excepting only as provided in the Indenture) secured by amounts payable by the Agency under the Agency Towngate Agreement.

Continuing Disclosure and Reporting Requirements. The District has covenanted to comply with the terms of the Continuing Disclosure Agreement executed by it on the Delivery Date for the Bonds with respect to compliance with Rule 15c2-12.

Further Assurances. The District will make, execute and deliver any and all such further agreements, 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.

AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District and Trustee may from time to time, and at any time, without notice to or consent of any of the Bondowners enter into Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond payments;

(c) to provide for the issuance of any bonds issued to refund the Bonds, and to provide the terms and conditions under which such refunding 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 of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the execution of the Indenture, or to comply with the Code or regulations issued thereunder or under the Indenture, 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 then Outstanding; or

(e) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Indenture; or

(f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in the preceding paragraph, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding and, so long as the Bond Insurance Policy remains in effect, the written consent of the Bond Insurer (excepting as to amendments under the Indenture for which no consent is required) shall have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive an instrument or instruments purporting to be executed by the Owners of a majority in aggregate principal amount of the Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties

and obligations under the Indenture of the District and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture, subject in all respects to such modifications and amendments.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Unless otherwise expressly provided in the Indenture, so long as the Bond Insurance Policy remains in effect, the Bond Insurer's consent shall be required in lieu of consent of the Owners, when required, for the following purposes: (i) execution of any Supplemental Indenture; (ii) removal of the Trustee or selection of any successor Trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires consent of the Owners.

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

Rights of Bond Insurer as to Amendments and Notices to Rating Agency. Notwithstanding any other provision of the Indenture to the contrary, so long as the payment of the principal and interest with respect to any 2007 Bonds is guaranteed by the Bond Insurer under the Bond Insurance Policy and the Bond Insurer is not in default under the Bond Insurance Policy, any amendment or supplement to the Indenture shall be subject to the prior written consent of the Bond Insurer (other than amendments for which no consent is required). The District has agreed to forward to the Rating Agency any amendments consented to by the Bond Insurer and entered into pursuant to the Indenture. Whenever the Trustee receives a consent of the Bond Insurer, the Trustee shall forward to the Rating Agency at its principal corporate headquarters a copy of such consent together with the amendment or supplement to which it applies. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

TRUSTEE

Trustee. Wells Fargo Bank, National Association shall be the Trustee for the Bonds unless and until another Trustee is appointed by the District under the Indenture. The District may, at any time, appoint a successor Trustee satisfying the requirements of the Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture.

Removal of Trustee. The District may at any time at its sole discretion, or upon request of the Bond Insurer so long as the Bond insurance Policy remains in effect for breach of duties imposed on the Trustee in the Indenture, remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor, other than the Trustee, shall be a bank, a national banking association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. If any bank, national banking association or trust

company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed.

Resignation of Trustee. The Trustee may at any time resign by giving written notice to the District to the Bond Insurer so long as the Bond Insurance Policy remains in effect and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee satisfying the criteria above by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed. If no successor Trustee shall have been appointed and have accepted appointment within forty five (45) days of giving notice of removal or notice of resignation as set forth in the Indenture, the resigning Trustee or any Owner (on behalf of itself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events shall constitute an "event 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; or

(c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Owners of 25% in aggregate principal amount of the Outstanding Bonds.

The District has agreed to give notice to the Trustee and, so long as the Bond Insurance Policy remains in effect the Bond Insurer, immediately upon the occurrence of an event of default under (a) or (b) above and within 30 days of the District's knowledge of an event of default under (c) above.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default as described in the Indenture, the Bond Insurer, so long as the Bond Insurance Policy remains in effect, shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

Remedies of Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on

the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

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

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

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds.

No remedy conferred upon or reserved to the Trustee or 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 existing in the future, 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 Act or any other law.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the effective rate of interest then borne by the Outstanding Bonds ; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(a) first to the payment of all installments of interest on the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds on a pro rata basis based on the total amount then due and owing.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%)

in aggregate principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds for the purposes 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 respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Appointment of Receivers. Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver. Nothing in the Indenture, or in the Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other moneys pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owners 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 of the Trustee or any Owner of any of the Bonds 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 Trustee or the Owners by the Act or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

Limitations on Rights and Remedies of Owners. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) 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.

Such notification, request, tender of indemnity and refusal or omission are declared by the Indenture, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions or any other provision of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

DEFEASANCE

Defeasance. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to the Indenture, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of the Indenture if such Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, noncallable Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owner of any such Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of,

premium, if any, and interest on all Outstanding Bonds to be defeased in accordance with the Indenture, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred. Notwithstanding the foregoing, a defeasance will not extinguish the obligations of the District to pay the Bond Insurer all sums of money due or to be become due according to the provisions of the Indenture or under the Bond Insurance Policy.

Conditions for the Issuance of Parity Bonds. The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then Outstanding. Parity Bonds may only be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

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

(i) The purpose for which such Parity 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 Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

(ii) The authorized principal amount of such Parity Bonds;

(iii) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an December 1, (ii) all such Parity Bonds of like maturity shall be identical

in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(iv) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(v) The denominations and method of numbering of such Parity Bonds;

(vi) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(vii) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(viii) The form of such Parity Bonds; and

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

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall be directed by the District to accept any of such documents bearing a prior date):

(i) A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(ii) A written request of the District as to the delivery of such Parity Bonds;

(iii) An opinion of Bond Counsel and/or general counsel to the District to the effect that (a) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (c) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Bonds theretofore issued on a tax exempt basis, or the exemption from State of California personal income taxation of interest on any Bonds theretofore issued;

(iv) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(v) A certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds Outstanding prior to the issuance of such Parity Bonds; and

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

MISCELLANEOUS

Cancellation of Bonds. All Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond purchased by the District as authorized in the Indenture and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued. The Trustee shall destroy such Bonds, and, upon request of the District, furnish to the District a certificate of such destruction.

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds shall be sufficient for the purposes of the Indenture (except as otherwise provided in the Indenture), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee shall be affected by any notice to the contrary.

Nothing contained in the Indenture shall be construed as limiting the Trustee or the District to such proof, it being intended that the Trustee or the District may accept any other evidence of the matters stated in the Indenture which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent.

Unclaimed Moneys. Anything in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Trustee at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District,

the Trustee at the written request of the District or the Trustee shall, at the expense of the District, cause to be mailed by first class mail, postage prepaid, to the registered Owners of such Outstanding Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Provisions Constitute Contract. The provisions of the Indenture shall constitute a contract among the District, the Bondowners and, so long as the Bond Insurance Policy remains in effect, the Bond Insurer and the provisions of the Indenture shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Indenture shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Indenture shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Gross Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Gross Taxes and other amounts pledged under the Indenture.

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

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and the Indenture, the Bonds issued pursuant to the Indenture shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

Notices. Any notices required to be given to the District with respect to the Bonds or the Indenture shall be mailed, first class, postage prepaid, or personally delivered to the City Finance Director, City of Moreno Valley, 14177 Frederick Street, P.O. Box 88005, Moreno Valley, California 92552-0805; all notices to the Trustee in its capacity as Trustee shall be mailed, first class, postage prepaid, or personally delivered to the Trustee, Wells Fargo Bank, National Association, 707 Wilshire Blvd., 17th Floor, Los Angeles, California 90017, Attention: Corporate Trust Services; and all notices to the Bond Insurer shall be mailed, first class, postage prepaid, or personally delivered to the Bond Insurer at One State Street Plaza, 19th Floor, New York, New York 10004, Attention: General Counsel's Office.

Payment Procedure Pursuant to the Bond Insurance Policy.

(a) At least one (1) business day prior to all Interest Payment Dates the Trustee will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such Funds or Accounts, the Trustee shall so notify the Bond Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified the Bond Insurer at least one (1)

business day prior to an Interest Payment Date, the Bond Insurer will make payments of principal or interest due on the Bonds on or before the first (1st) business day next following the date on which the Bond Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Bond Insurer as provided in (a) above, make available to the Bond Insurer and, at Bond Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for Bond Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the District maintained by the Trustee and all records relating to the Funds and Accounts maintained under the Indenture.

(c) The Trustee shall provide the Bond Insurer and the Insurance Trustee with a list of registered owners of the Bonds entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from the Bond Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of the Bonds entitled to receive full or partial principal payments from the Bond Insurer.

(d) The Trustee shall, at the time it provides notice to the Bond Insurer pursuant to (a) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from the Bond Insurer (i) as to the fact of such entitlement, (ii) that the Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Bond Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Bond Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Bond Insurer, they must surrender their Bonds for payment thereon first to the Trustee who shall note on such Bonds the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that 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 District has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee if any, shall, at the time the Bond Insurer is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted the Bond Insurer under the Indenture, the Bond Insurer shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the District maintained by the Trustee upon receipt from the Bond Insurer of proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the District maintained by the Trustee upon surrender of the Bonds by the registered owners thereof together with proof of the payment of principal thereof.

(g) The District has covenanted and agreed that it shall reimburse the Bond Insurer for any amounts paid under the Bond Insurance Policy and all costs of collection thereof and enforcement of the Indenture and any other documents executed in connection with the Indenture, together with interest thereon, from the date paid or incurred by the Bond Insurer until payment thereof in full by the District, payable at the Insurer Payment Rate (as defined in the Indenture), including without limitation (to the extent permitted by applicable law) interest on claims paid by the Bond Insurer in respect of interest on the Bonds. Such payment obligation shall be payable on demand and on a parity with, and from the same sources and secured by the same security as, regularly scheduled principal and interest payments in respect of the Bonds. For purposes of the foregoing, “Insurer Payment Rate” shall mean the lesser of (a) the maximum rate permissible under applicable usury or similar laws limiting interest rates and (b) the greater of (i) the then applicable highest rate of interest on the Bonds and (ii) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A. (“Chase”) at its principal office in the City of New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by Chase) plus 3 percent. The Insurer Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that Chase ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Bond Insurer shall specify.

Notice to Bond Insurer From Trustee. While the Bond Insurance Policy is in effect, the District or the Trustee (as to (b) and (c)) at the District’s written request, shall furnish to the Bond Insurer:

- (a) as soon as practicable after the filing thereof, a copy of any financial statement of the District and a copy of any audit and annual report of the Agency;
- (b) a copy of any notice to be given to the registered owners of the Bonds and any certificate rendered pursuant to the Indenture relating to the security for the Bonds; and
- (c) such additional information as the Bond Insurer may reasonably request from time to time.

The District will permit the Bond Insurer to discuss the affairs, finances and accounts of the District or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the District. The Trustee or District, as appropriate, will permit the Bond Insurer to have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

Notwithstanding any other provision of the Indenture, the Trustee shall promptly notify the Bond Insurer if at any time there are insufficient moneys to make any payments of principal and interest as required and immediately upon the occurrence of any event of default under the Indenture.

The Trustee or the District shall notify the Bond Insurer of any failure of the District to provide relevant notices or certificates.

The Bond Insurer shall have the right to direct an accounting at the District’s expense, and the District’s failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from the Bond Insurer shall be deemed a default under the Indenture; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Bonds.

To the extent that the District has entered into a Continuing Disclosure Agreement with respect to the Bonds, the Bond Insurer shall be included as party to be notified.

Consent of the Bond Insurer. Any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer under the Indenture without the prior written consent of the Bond Insurer.

Notwithstanding anything in the Indenture to the contrary if the Bond Insurer has failed to make any payments under the Bond Insurance Policy, and such failure remains unremedied, all rights accruing to the Bond Insurer under the Indenture with respect to the giving of directions, instructions, approvals or consents shall cease to be in force and effect until such time as such failure to make such payments has been remedied.

Consent of the Bond Insurer in Addition to Consent of the Owners. The Bond Insurer's consent shall be required in addition to consent of the Owners, when required, for the following purposes: (i) execution and delivery of any supplemental Indenture; (ii) removal of the Trustee and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which required consent of the Owners

General Authorization. The City Finance Director, the City Clerk and the City Manager are each respectively authorized to do and perform from time to time any and all acts and things consistent with the Indenture necessary or appropriate to carry the same into effect.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT

This Continuing Disclosure Agreement-Issuer (the “Disclosure Agreement”) is executed and delivered by the Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, City of Moreno Valley, County of Riverside, State of California (the “District”) and Wells Fargo Bank, National Association, in its capacity as Dissemination Agent hereunder (the “Dissemination Agent”), in connection with the issuance of \$ _____ City of Moreno Valley Community Facilities District No. 87-1 (Towngate) 2007 Special Tax Refunding Bonds (Towngate) (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture dated as of October 1, 2007 (the “Indenture”), between the District and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The District and the Dissemination Agent covenant and agree as follows:

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

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

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

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

“*Central Post Office*” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Agreement.

“*Disclosure Representative*” shall mean the Redevelopment Manager or his designee, or such other officer or employee as the District shall designate in writing to Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean Wells Fargo Bank, National Association., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District.

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

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

“*Participating Underwriter*” shall mean E. J. De La Rosa & Co., Inc. & Co., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

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

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

SECTION 3. Provision of Annual Reports.

(a) The District shall, or upon written request shall cause the Dissemination Agent to, not later than March 31 of each year, commencing with the report for March 31, 2008, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the Trustee and the Participating Underwriter. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Participating Underwriter to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the District, and shall have no duty or obligation to review such Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and not later than the date required above for the filing of the Annual Report if not available by that date. If the District’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 the Repositories, the District shall provide the Annual Report to the Dissemination Agent and Trustee. If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact the District and the Dissemination Agent to determine if the District is in compliance with subsection (a).

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

(d) The Dissemination Agent shall:

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

(ii) to the extent the Annual Report has been provided to the Dissemination Agent or to the extent of that information is known to it, file a report with the District (if the Dissemination Agent is other than the District) and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder may be made through a Central Post Office.

SECTION 4. Content of Annual Reports. The Annual Report due by March 31, 2008 shall consist of the Official Statement and the audited financial statements of the District. Thereafter, the District’s Annual Report shall contain or incorporate by reference the following:

(a) The District’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, and as further modified according to applicable State law. If the District’s

audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the usual format utilized by the District, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

- (b) The following additional items:
 - (1) Principal amount of Bonds outstanding.
 - (2) Balances of the funds and each of the accounts therein created under the Indenture, including:
 - Special Tax Fund
 - Acquisition and Construction Fund
 - Rebate Fund
 - (3) Total assessed value of all parcels subject to the Special Taxes and the current fiscal year's assessed value for the District.
 - (4) Special Tax and property tax delinquency rate for parcels in the District for the most recent fiscal year.
 - (5) As to delinquent parcels:
 - the assessor's parcel number,
 - the aggregate amount of delinquent property taxes, assessments (both fixed lien and annual) and Special Taxes and the accrued penalties and interest on such aggregate amount,
 - total number of parcels delinquent in payment of Special Tax,
 - amount of total delinquency and as a percentage of total Special Tax levy, and
 - status of the District's actions on covenants to pursue foreclosure proceedings upon delinquent properties.
 - (6) As to any parcel for which the annual Special Tax levy represents more than 10% of the aggregate Special Tax levy within the District:
 - names of the owners of each such parcel as shown on the Assessor's Roll or County delinquency report received by the District, whichever is more current,
 - percentage of the Special tax levy allocated to each such parcel,
 - Developed Property or Undeveloped Property status (as such terms are defined in the Rate and Method of Apportionment of Special Tax) of each such parcel,
 - assessed value of applicable properties, and
 - summary of results of foreclosure sales, if available.
 - (7) Significant amendments to land use entitlements for property in the District known to the Agency's Chief Financial Officer or Redevelopment Manager.
 - (8) Status of any significant legislative, administrative, and judicial challenges to the construction of the development in the District or to the use or continuing use of any parcel known to the Agency's Chief Financial Officer or Redevelopment Manager,

without independent inquiry, for any year in which construction activity has occurred in the District.

- (9) For the most recent year for which the following information is available, any building permit issued for the construction of a building on a parcel subject to the Special Taxes and any certificate of occupancy for any building on a parcel subject to the Special Taxes.
- (10) To the extent not otherwise provided pursuant to the preceding items 1-9, annual information required to be filed by the District with the California Debt and Investment Advisory Commission pursuant to Sections 50075.1, 50075.3, 53359.5(b), 53410(d) or 53411 of the California Government Code.

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 District 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 District 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 District 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) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) The Dissemination Agent shall, immediately upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the individual at the Dissemination Agent with regular responsibility for the administration of matters related to the Indenture. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the District shall as soon as possible, but in no event later than ten (10) business days after the occurrence thereof, determine if such event would be material under applicable federal securities law.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

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

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and the Repositories with a copy to the District. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Bonds pursuant to the Indenture.

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to act as such under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement.

The Dissemination Agent may at any time resign by providing thirty days written notice to the District, such resignation to become effective upon acceptance of appointment by a successor Dissemination Agent. Upon receiving notice of such resignation, the District shall promptly appoint a successor Dissemination Agent. If no appointment of a successor Dissemination Agent shall be made pursuant to the forgoing provisions of this Section within forty-five (45) days after the Dissemination Agent shall have given to the District written notice of its resignation, the Dissemination Agent may apply to any court of competent jurisdiction to appoint a successor Dissemination Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Dissemination Agent. The District shall provide the Dissemination Agent with written notice of the identity of any successor Dissemination Agent appointed or engaged by the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the District) which does not impose any greater duties, nor risk of liability, on the Dissemination Agent) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) the amendment or waiver, if it relates to annual or event information to be provided, is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identify, nature, or status of the District, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or type (or, in the case of a change of accounting principles, on the presentation) of financial information being provided.

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

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

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed a default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or Dissemination Agent to comply with this Disclosure Agreement 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 Agreement, and, if the Dissemination Agent is other than the District, the District 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 District for its services provided hereunder and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent, if the Dissemination Agent is other than the District, shall have no duty or obligation to review any information provided to it by the District and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The obligations of the District 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 or among any of the parties to this Disclosure Agreement may be given as follows:

To the District: City of Moreno Valley Community Facilities District No. 87-1
14177 Frederick Street, P.O. Box 88005
Moreno Valley, California 92552-0805
Attention: Enterprise Services
Telephone: (951) 413-3489
Fax: (951) 413-3498

To the Dissemination Agent: Wells Fargo Bank, National Association
Corporate Trust Services
MAC E2818 176
707 Wilshire Blvd., 17th Floor
Los Angeles, California 90017
Attention: _____
Telephone: _____
Fax: _____

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 Agreement shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and the owner and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: November __, 2007

DISTRICT:

COMMUNITY FACILITIES DISTRICT
NO. 87-1 (TOWNGATE), CITY OF MORENO
VALLEY, COUNTY OF RIVERSIDE, STATE
OF CALIFORNIA

By: _____
Finance Director/City Treasurer

DISSEMINATION AGENT:

WELLS FARGO BANK, NATIONAL
ASSOCIATION

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Moreno Valley Community Facilities District No. 87-1 (Towngate)
Name of Bond Issue: City of Moreno Valley Community Facilities District No. 87-1 (Towngate),
2007 Special Tax Refunding Bonds
Date of Issuance: November __, 2007

NOTICE IS HEREBY GIVEN that the Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, County of Riverside, State of California (the "District") has not provided a Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated November __, 2007 executed by the District for the benefit of the owners and beneficial owners of the above-referenced bonds. **[The District anticipates that the Annual Report will be filed by _____.]**

Dated: _____

WELLS FARGO BANK, NATIONAL
ASSOCIATION

By: _____
Authorized Officer

cc: City of Moreno Valley
Community Facilities District No. 87-1
(Towngate)
14177 Frederick Street, P.O. Box 88005
Moreno Valley, California 92552-0805
Attention: Enterprise Services Administration

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

Community Facilities District No. 87-1
of the City of Moreno Valley (Towngate)
Moreno Valley, California

**Re: \$ _____ *City of Moreno Valley Community Facilities District No. 87-1 (Towngate)*
 *2007 Special Tax Refunding Bonds***

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Moreno Valley (the "City") taken in connection with the formation of Community Facilities District No. 87-1 (Towngate), City of Moreno Valley, County of Riverside, State of California (the "District") and the authorization and issuance of the 2007 Special Tax Refunding Bonds (Towngate) issued by the District in the aggregate principal amount of \$ _____ (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have assumed the genuineness of all documents and signatures presented to us and we have relied upon certain representations of fact and certifications made by the Agency, the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of October 1, 2007 (the "Indenture"), by and between the District and Wells Fargo Bank, National Association, as trustee (the "Trustee"). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds mature on the dates and in the amounts set forth in the Indenture. The Bonds are dated their date of delivery and bear interest payable semi-annually on each April 1 and October 1, commencing April 1, 2008, at the rates per annum described in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained therein.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(5) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (4) above) and is exempt from State of California personal income tax.

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

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5) (6) and (7) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture and the Tax Certificate for the Bonds 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 counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX E

DTC AND THE BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to www.dtcc.com is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Principal, redemption price 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 District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District 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 District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered in accordance with the Indenture. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS."

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the District determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the District fails to select a

qualified securities depository to replace DTC, the District will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the District. The Trustee shall not be required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request of the District. Upon such registration, such persons in whose names the Bonds are registered will become the registered owners of the Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Bonds may be exchanged for a like aggregate principal amount of such Bonds of the same maturity of other authorized denominations; (b) the transfer of any Bond may be registered on the books maintained by the Trustee under the Indenture for such purpose only upon the surrender thereof to the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of Bonds, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) the Trustee will not be required to transfer or exchange any Bond which has been selected for redemption in whole or in part from and after the day of mailing of a notice of redemption of such Bond selected for redemption or during the period established by the Trustee for selection of Bonds for redemption; (e) all interest payments on the Bonds will be made by check mailed by the Trustee to the Owners thereof to such Owner's address as it appears on the registration books maintained by the Trustee on the applicable Record Date next preceding such interest payment date; provided, that upon request of a Bondowner of \$1,000,000 or more in aggregate principal amount of the Bonds received by the Trustee prior to the first day of the month next preceding an interest payment date, interest shall be paid by wire transfer in immediately available funds to an account in the United States; and (f) all payments of principal, and any premium on the Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee in Los Angeles, California.

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APPENDIX F

GENERAL INFORMATION CONCERNING THE CITY AND REGION

The following information is presented as general background data. Payments for the Bonds are payable from Special Taxes as described in this Official Statement.

Location

The City of Moreno Valley (the “City”) is centrally located in Southern California, 66 miles east of Los Angeles and 100 miles north of San Diego. The City encompasses approximately 51 square miles of land area in western Riverside County. Geographically, the City is bordered by three low-lying mountain ranges, March Air Reserve Force Base and Lake Perris State Park. The City is situated at the junction of two major highways, California State Highway 60 (the Moreno Valley Freeway) and Interstate 215.

Population

The City is the second largest city in Riverside County with an estimated population of 180,466 as of January 1, 2007. Table F-1 sets forth total population for the City, the County of Riverside (the “County”) and the State of California (the “State”).

Table F-1
City of Moreno Valley, County of Riverside and State of California
Population

	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Moreno Valley	151,847	157,842	166,385	175,269	180,466
Riverside County	1,726,321	1,807,624	1,888,311	1,966,607	2,031,625
California	35,691,472	36,245,016	36,728,196	37,172,015	37,662,518

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001–2007, with 2000 DRU Benchmark*. Sacramento, California May 2007.

Employment

Table F-2 summarizes the labor force, employment and unemployment figures over the period 2002 through 2006 for the City, the County, the State and United States.

Table F-2
City of Moreno Valley, County of Riverside, State of California and United States
Labor Force, Employment and Unemployment Yearly Average

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment⁽¹⁾</i>	<i>Unemployment⁽²⁾</i>	<i>Unemployment Rate (%)⁽³⁾</i>
2002				
Moreno Valley	70,700	65,600	5,100	7.2%
Riverside County	748,700	701,100	47,600	6.4
California	17,330,700	16,168,200	1,162,500	6.7
United States	144,863,000	136,485,000	8,378,000	5.8
2003				
Moreno Valley	73,700	68,400	5,300	7.2%
Riverside County	780,500	731,000	49,500	6.3
California	17,403,900	16,212,600	1,191,300	6.8
United States ⁽⁴⁾	146,510,000	137,736,000	8,774,000	6.0
2004				
Moreno Valley	77,400	72,400	5,000	6.5%
Riverside County	820,800	773,700	47,100	5.7
California	17,499,600	16,407,900	1,091,700	6.2
United States ⁽⁴⁾	147,401,000	139,252,000	8,149,000	5.0
2005				
Moreno Valley	81,800	76,600	5,200	6.3%
Riverside County	862,400	816,500	46,400	5.4
California	17,740,400	16,782,300	958,100	5.4
United States ⁽⁴⁾	149,320,000	141,730,000	7,591,000	5.1
2006				
Moreno Valley	83,400	79,000	4,900	6.3%
Riverside County	886,400	842,000	44,400	5.0
California	17,901,900	17,029,300	872,600	5.4
United States ⁽⁴⁾	151,413,000	144,419,000	6,910,000	4.6

⁽¹⁾ Includes persons involved in labor-management trade disputes.

⁽²⁾ Includes all persons without jobs who are actively seeking work.

⁽³⁾ The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

⁽⁴⁾ Not strictly comparable with data for prior years.

Source: California Employment Development Department, based on March 2005 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics

Utilities

The City receives water service from the Eastern Municipal Water District, Sunnymead Mutual Water Company, Moreno Valley Mutual Valley Mutual Water Company and Edgemont Gardens Mutual Company. The City is also serviced by the following utilities: Verizon and Southern California Gas Company. Electrical

service for most of the City's developed areas is provided by Southern California Edison. The City has established an electric utility that is providing service for the remainder of the City.

Transportation

The City is centrally located within the Inland Empire. Highways passing through the City include California State Highway 60 and Interstate 215. California State Highway 60 connects in Riverside to California State Highway 91, which connects to Orange County and Long Beach. California State Highway 60 and Interstate 215 provide access Interstate 10 within 15 miles of the City. Rail service in the City includes the Burlington Northern Santa Fe branch line. There is one local freight daily, which services the Edgemont area of Moreno Valley and areas on the west side of Interstate 215. The main line service in Riverside has stop locations at the Union Pacific, Southern Pacific and Burlington Northern Santa Fe stations. Metrolink commuter rail service in Riverside to Los Angeles and Orange County.

Ontario International Airport (owned and operated by Los Angeles World Airports), 31 miles northwest of the City, is served by AeroMexico, Alaska Airlines, American Airlines, ATA Airlines, Continental Airlines, Delta Air Lines, ExpressJet Airlines, JetBlue Airways, Lineas Aereas Azteca, Southwest Airlines, United Airlines and US Airways. Allegiant Air provides charter services at Ontario International Airport and various airlines provide freight services at Ontario International Airport. Riverside Municipal Airport has general aviation facilities with 5,400 feet and 1,600 feet runways.

Education

The City is served by two public school districts: Moreno Valley Unified School District and Val Verde Unified School District. Moreno Valley Unified School District has 23 elementary schools, six middle schools, five comprehensive high schools, one charter school, one adult school, one continuation school, a community day school, one pre-school and one academic center. Val Verde Unified School District serves the communities of Perris, Mead Valley and Moreno Valley. Val Verde Unified District has one pre-school, 13 elementary schools, five middle schools and four high schools.

The City is also home to Moreno Valley Community College.

Recreation and Culture

Lake Perris State Park offers boating, swimming, water-skiing, fishing and camping within its 8,300 acres. Box Springs Mountain Park provides trails for hiking and horseback riding. The City centralized location allows residents to visit nearby mountain resorts, Palm Springs and the beach cities with relative ease. Three golf courses are available, including the 27 hole Moreno Valley Rancho Golf Club, ranks among the top 75 public courses in the U.S. The City's park system consists of 29 parks with 328 acres. The City offers a variety of recreational activities for adults and youth. The City is served by the City's library system.

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APPENDIX G

REPORT OF THE FISCAL CONSULTANT

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Community Redevelopment Agency
of the City of Moreno Valley
Redevelopment Project Area

Fiscal Consultant Report

October 5, 2007

Prepared By:

DHA Consulting
211 E. Ocean Blvd., Suite 216
Long Beach, CA 90802

**Community Redevelopment
Agency of the City of Moreno Valley
Moreno Valley Redevelopment Project Area
Fiscal Consultant Report**

Section A - Introduction

The Community Redevelopment Agency of the City of Moreno Valley is proposing to issue bonds to be secured, in whole or in part, by tax increment revenues from the Moreno Valley Redevelopment Project Area (Project Area). In connection with the proposed financings, the Agency has retained DHA Consulting to conduct a review of assessed values and prepare a projection of future tax increment revenues for the Project Area. This report summarizes the findings of that review.

The California Community Redevelopment Law (CRL) provides for the creation of a redevelopment agency for the purpose of eliminating blight. To achieve this purpose, the CRL, along with Article XVI, Section 16 of the California Constitution, authorizes the Agency to receive that portion of property tax revenue generated from the increase of the current year project taxable values over the taxable values that existed at the time of the Project Area's adoption. This portion of property tax revenue is referred to as tax increment revenue. The CRL provides that the tax increment revenue may be pledged by the Agency for the repayment of Project Area indebtedness.

This Fiscal Consultant Report will present an examination of valuations and tax receipts and a projection of future tax increment revenues for the Project Area. The projections are based on assumptions determined by a review of the taxable value history of the Project Area; anticipated new development activities; and the property tax assessment and property tax apportionment procedures of Riverside County. This report was prepared in August and September of 2007 and is primarily based on 2007-08 assessed value and appeal information as available during that timeframe.

This report is organized into the following sections:

- A. Introduction
- B. The Project Area
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Section B – The Project Area

The Redevelopment Plan for the Moreno Valley Redevelopment Project was adopted by the City Council of the City of Moreno Valley on December 29, 1987 by Ordinance Number 87-154. As prescribed by law, the Redevelopment Plan contains certain limits, which are currently as follows:

Redevelopment Plan Limitations

<u>Type of Limitation</u>	<u>Limit</u>
Debt Incurrence Deadline	December 29, 2007
Plan Termination Date	December 29, 2028
Receipt of Tax increment Deadline	December 29, 2038
Bonded Debt Limit	\$247.8 Million
Tax Increment Limit (1)	\$821.2 Million

- (1) The tax increment limit of \$821.2 million, as included in the Redevelopment Plan, excludes from the limit the obligations for the housing set-aside and amounts payable to the County and the Flood Control District under certain written agreements.

As shown above, the Agency's debt incurrence deadline is December 29, 2007. This means that after this date, the Agency cannot issue any more bonds or incur other debt. This deadline can be omitted by ordinance if the Agency so elects, although such action will trigger certain obligations on the part of the Agency to share additional portions of the tax increment revenues generated by the Project Area. See "Agency Obligations" below for additional information on other liens on tax increment revenues.

Project Boundaries and Land Use

The Project Area encompasses 4,676 acres in several non-contiguous areas. It is irregularly shaped and extends easterly along the 60 Freeway on the north and Cactus Avenue on the south from the western boundary of the City of Moreno Valley. The eastern boundary of the Project Area is irregular and extends as far east as Petit Street, although the majority of the Project Area is west of Lasselle Street.

The assessed value in Project Area is derived from a mix of uses, with residential uses predominating. Table 1 shows the 2007-08 value in the Project Area by type of land use. As shown, residential uses comprise over 55 percent of the 2007-08 assessed values while commercial uses comprise nearly 21 percent and industrial nearly 7 percent. Unlike the balance of Moreno Valley, residential construction that has taken place within the Project Area in the last several years has consisted primarily of large residential apartment

complexes. While there are a number of single family homes in the Project Area, the majority of them were constructed during the 1960's, 70's and 80's.. (One notable exception is the 550 unit Renaissance complex of single family homes constructed in the 2002 to 2004 timeframe.) Approximately 75 percent of the \$1.4 billion in 2007-08 residential assessed values is attributable to single family homes or condominiums with the remaining 25 percent attributable to apartments and other miscellaneous types of residential uses.

Major Taxpayers

The Major Taxpayers in the Project Area are summarized on Table 2. The total taxable value for the major assesseees represents \$429 million, or about 16.5 percent, of the total value for the Project Area. Four of the largest taxpayers are recently developed or rehabilitated residential apartment complexes, while the balance of the major taxpayers includes industrial, commercial and retail uses. Ridge Moreno Valley, the third largest taxpayer, is the assessee of record for Centerpointe Business Park, a large recently constructed industrial business park. Homart Newco Two Inc., the fifth largest taxpayer, is the owner of the Moreno Valley Mall, an indoor regional mall completed in 1992. The value of the mall assessment was reduced to \$40 million several years ago as the result of the resolution of Proposition 8 appeals. See "Assessment Appeals" for additional information on Proposition 8 appeals.

Section C – Taxable Values and Historical Revenues

Property Valuation Methods

In California, most property is assessed and taxed subject to the provisions of Article XIII A of the California Constitution, commonly referred to as Proposition 13. Under Proposition 13, property is valued based either on its value in 1975-76 or, if newly constructed or sold after this date, then on the full cash value of the property at that time. Thereafter, property values may only increase annually by an inflation factor of up to 2 percent annually. The Proposition 13 value of property is sometimes referred to as the factored base year value. Pursuant to Section 51 (b) of the Revenue and Taxation Code, assessors must enroll the lesser of the market value or the factored base year value of property.

The restrictions on property assessment and reassessment imposed by Proposition 13 tend to act as a stabilizing factor for property taxes. Assessed values do not typically increase as much or as quickly as market values do in an escalating real estate market, and do not decrease as much or as quickly in a declining real estate market.

Certain types of property subject to property taxation are not subject to Proposition 13 but rather are subject to annual reappraisal. These include personal property and property assessed by the State Board of Equalization (state-assessed property or SBE). State-assessed property is considered secured property while personal property can either appear on the secured or the unsecured roll. The secured roll includes property on which the property tax levied becomes a lien on the property to secure the payment of taxes. The tax on unsecured property does not become a lien on such property, but may become a lien on other property of the taxpayer. Since 1987-88, the value of most state-assessed property has been reported on a county-wide basis, with resulting revenues allocated to taxing entities and redevelopment projects pursuant to a specified formula as required by AB 454. Only

state-assessed non-unitary values and railroad values are reported at the local situs level. The Agency receives less than \$50,000 in revenue from any type of state-assessed property within the Project Area.

Project Area Value Trends

Assessed values for the Project Area are reported by the County in August each year and then are generally updated in October. Corrections, or other changes, to the assessed values are made by the County throughout the fiscal year, but redevelopment agencies are paid 100 percent of the revenues attributable to the values as reported in October. Table 3 shows the historical taxable values reported by the County for the Project Area since the 1992-93 fiscal year.

As shown on Table 3, the assessed values reported for the Project Area decreased in the mid-1990s, but have increased significantly over the last 5 years. The current year (2007-08) value reported for the Project Area is \$2.6 billion, which is double the 2003-04 reported value of \$1.1 billion. During the mid-1990's, however, the values in the Project Area experienced some declines, ranging from 4 to 9 percent each year from 1995-96 to 1998-99. These declines were related to the real estate recession and resulting declines in values that were experienced during that timeframe. Thereafter growth ranged from 0 to 5 percent until 2002-03; annual growth since 2002-03 has ranged from 9 to 25 percent. In southern California, real estate prices have increased substantially over the last 5 to 7 years, resulting in an increase in the median price of homes of over 50 percent, and an increase in residential new construction. In the Project Area, much of the new residential construction has been apartment buildings rather than single family homes. These factors have contributed to the substantial amount of growth that the Project Area has experienced in the last 5 years: the increases in value for the Project Area have been largely the result of changes in ownership, new residential apartment construction and new commercial and industrial construction.

Economists are now in agreement that housing price appreciation in southern California is slowing, if not stopping or even losing ground. Economists disagree, however, as to whether the softening in the housing market will lead to prices falling or just flattening. Further, there is not any consensus as to the effect of the housing market on real estate values in general. Any such changes to the general real estate market are likely to have an impact on the future assessed values within the Project Area.

Section D – Assessment Appeals

Types of Appeals

Taxpayers may dispute, or appeal, their property tax assessments. Depending on the outcome of the appeal, taxes paid in the current year may be either higher or lower than the initial assessment. (An appeal which results in a lower valuation is referred to in this Report as a successful appeal.) When an appeal is successfully resolved after the disputed taxes have already been paid, a refund with interest is subsequently issued to the taxpayer by the county.

In California, there are two types of appeals: a Proposition 8 appeal and a base year appeal. A Proposition 8 appeal is based on Section 51 of the Revenue and Taxation Code and allows for temporary reductions in the taxes paid on properties because the assessed value of a property somehow becomes higher than its actual market value. This can be the result of the damage or removal of property, or general reductions in real estate values. Once the property damage is restored, or the real estate market improves, an assessment subject to Proposition 8 reduction can be returned to its pre-appeal value. The second type of appeal is a base year assessment appeal where owners challenge the original, or base year, valuation assigned by the Assessor. Any reduction resulting from a base year assessment appeal is permanent and can only increase at the allowable inflationary adjustment unless the property is sold or experiences new construction.

There are also two methods for achieving a reduction in the valuation of property. One way is for the applicant to file an assessment appeal application; the other way is for the Assessor's office to process an assessment reduction without the taxpayer's prompting or request. For the purpose of this report, assessed value reductions processed by the County without taxpayer prompting are referred to as automatic reductions. Automatic assessed value reductions would almost always be Proposition 8 appeals, although filed appeals can be either Proposition 8 or base year appeals.

Automatic Assessment Appeals

In August 2007, the Riverside County Assessor announced that his office would process temporary assessed value reductions (Proposition 8) for properties without such reductions being necessitated by the request or prompting of the taxpayer, as is more typical with assessment reductions. These reductions would be processed in instances where the assessed values now exceed the current market value of properties. This announcement was triggered by at least the perception of dropping residential property values in certain areas of Riverside County.

Citywide: For the City of Moreno Valley, the automatic Proposition 8 assessed value reductions announced by the Assessor had very little impact on the 2007-08 assessed values. Citywide, the total reduction equaled about \$12.6 million, or about one-tenth of one percent (0.1%) of total 2007-08 assessed value reported for the City. The supervising residential appraiser for the Riverside/western Moreno Valley area reported that very few such reductions were processed for residential properties in the Riverside/Moreno Valley area: the major reductions processed for 2007-08 were in the desert areas such as Palm Springs and Indio. The amounts of the assessed value reductions resulting from Proposition 8 appeals, both filed appeals and automatic reductions, for both the City of Moreno Valley and the County of Riverside are shown in Table 4. While the amounts shown on Table 4 include both filed and automatic appeals, the amounts shown for 2007-08 are probably largely attributable to automatic assessment reductions as taxpayers have until December 2007 to file appeals for the 2007-08 fiscal year.

Redevelopment Project Area: Historical Information on the amount of the reductions attributable to the Project Area was not available. For the 2007-08 fiscal year, however, the Proposition 8 assessment appeals information for the Project Area is as follows:

2007-08 Proposition 8 Reductions

Project Area Total Value	Original Value	Reduced Value	Value Reduction
2,608,666,928	13,695,794	10,492,102	(3,203,692)

As shown above, the value for \$13.7 million in property was reduced to \$10.5 million for the 2007-08 fiscal year through Proposition 8 appeals adjustments. This represents a \$3.2 million, or 23.4 percent, reduction. When compared to the total Project value of \$2.6 billion, however, the \$3.2 million decline equals a reduction of about one-tenth of one percent (0.1%). The 2007-08 assessed values used in this report as the basis of current year revenue estimates have already been reduced by the automatic assessment reductions processed by the County Assessor's office for the 2007-08 fiscal year and shown above.

At this time, it is difficult to determine what impact trends in the real estate market may have on future assessed values in the Project Area. While the Assessor announced that Proposition 8 reductions processed for the 2008-09 fiscal year would be substantially greater than those enrolled for 2007-08, appraisers within the Assessor's office responsible for assessing property in the vicinity of the Project Area could not postulate as to the amount of reductions, if any, that might occur: the data needed to estimate such reductions is not yet available. Reductions made to date in the Moreno Valley area are insignificant and are substantially below the Proposition 8 reductions that occurred in prior fiscal years (see above and Table 4). Because of these factors, a deduction to 2007-08 or future year assessed values has not been made as a result of any automatic assessment appeal reductions which may be processed by the County Assessor. Should property values for real estate decline in future years, such declines may have a detrimental affect on future assessed values and tax increment revenues.

Filed Assessment Appeals

As mentioned above, appeals can be processed as automatic reductions or on a case by case basis as a result of action by the taxpayer through the filing of assessment appeals. Assessment appeals actually filed by taxpayers have been analyzed, and estimated assessed value reductions have been quantified and included in projections of future year revenues to be generated by the Project Area. These filed appeals include both base year assessment disputes as well as Proposition 8 appeals. Because taxpayers have until December 2007 to file appeals for the 2007-08 fiscal years, 2007-08 taxpayer appeals are not yet available. Appeals filed for 2006-07 and prior fiscal years, however, have been examined. The results of that review are summarized below.

Table 5 presents a summary of the appeal information that is projected to potentially impact future assessed values in the Project Area. Included in the appeals summaries are appeals which have already been resolved, but are projected to impact current or future values, and currently outstanding appeals which may have an impact on future values. Reductions to reported values can occur as a result of the resolution of prior year appeals. As a result, it can be assumed that most outstanding appeals will impact future values and revenues for the Project Areas. For the purposes of projecting future tax increment revenues, currently outstanding appeals are assumed to proportionately reduce taxable values in 2008-09 and

thereafter. The exception to this assumption is where appeals are outstanding on the same property over a number of years: only one assessed value reduction can occur regardless of the number of years being appealed.

The resolution of the outstanding appeals is assumed to result in an average assessed value reduction of 15 percent. This is based on the average reduction in value of resolved assessment appeals filed for the 2000-01 to 2003-04 fiscal year. An insufficient number of appeals have been resolved for the 2004-05 through 2006-07 fiscal years to be able to demonstrate any kind of trend for the more recent years.

Because of Riverside County's allocation methodology, tax refunds should not impact the Agency regardless of how the outstanding appeals are resolved. Estimates for tax refunds have therefore not been assumed herein. See "Property Tax Allocation Procedures under Section E below for additional information on Riverside County's allocation procedures.

Section E – Tax Allocation and Disbursement

Tax Rates

Tax increment revenues included in this analysis are computed based upon incremental assessed value of the Project Area multiplied by a 1.0 percent tax rate. Actual taxes allocated by the County to the Project, however, are based on a tax rate that is in excess of 1.0 percent. The tax rate utilized by the County consists of the general tax levy of \$1.00 per \$100 of assessed value and the override tax rate which represents the debt service levy where indebtedness has been authorized by voter approval. An amendment to the Constitution prohibits redevelopment agencies from receiving taxes generated by override tax rates which were approved by the voters after December 31, 1988.

Override tax rates typically decline each year for two reasons: 1) increasing property values reduce the override rate needed to be levied by the taxing entities to meet debt service; and 2) voter approved debt is eventually retired over time.

For the 2006-07 fiscal year, secured tax increment revenues allocated to the Project Area were based a weighted average tax rate slightly above 1.0 percent, or 1.01415 percent. This weighted average is the result of several similar, but somewhat different tax rates present in the Project Area. The components of a typical tax rate in the Project Area, excluding any rates associated with indebtedness approved by the voters in 1989 or thereafter is shown below.

Taxing Entity	Typical 2006-07 Rate
Metro Water District	.004700 %
Eastern Muni Wtr Imp District	.009000 %
General	<u>1.000000 %</u>
Total Tax Rate	1.013700 %

For unsecured property, the prior year secured tax rate is used by the County, in accordance with applicable regulations. As mentioned above, tax increment revenue projections included herein are calculated without the inclusion of any override rates, i.e., the revenue projections are based on a 1.0 percent tax rate.

Statements of Indebtedness

Tax increment is allocated to redevelopment agencies by county auditor-controller offices, provided the agencies have filed a legislatively required debt statement by October 1 each year (Statement of Indebtedness). The legislatively prescribed process requires that redevelopment agencies list all of their debts on the Statement of Indebtedness. Tax increment revenues are only to be allocated to a redevelopment agency to the extent that net debt levels are sufficient. (Net debt equals gross debt less revenues available to retire that debt.)

For redevelopment purposes, debt is defined liberally to include all loans, moneys advanced to or indebtedness, whether funded, refunded assumed or otherwise, incurred by a redevelopment agency to finance or refinance, in whole or in part, the redevelopment project. As a result of this broad definition, expenditure items like administrative expenses can be considered debt if properly documented.

In addition to listing its outstanding debt items, a redevelopment agency must also prepare and file a Reconciliation Statement which provides an explanation for the expenditure of all tax increment revenues received in the prior fiscal year: tax increment revenues can only be spent on qualified debt. If tax increment revenues are spent on other items, the amount so spent is designated as available ("Available Revenue"), and is deducted from the gross amount of debt for a project area. Similarly, any tax increment revenues received but not yet spent are considered Available Revenues.

Estimates of future Available Revenues and/or debt levels have not been prepared as a part of this analysis. The estimates of revenues included in the accompanying tables are based on the assumption that the Agency will remain eligible to receive 100 percent of revenues generated by the Project Area. This will require that the Agency properly files a Statement of Indebtedness for the Project Area on an annual basis, expends tax increment revenues for eligible debt items and properly reports its expenditures as debt on supporting Statement of Indebtedness schedules.

Property Tax Allocation Procedures

The method by which a county allocates property taxes and tax increment revenues can have a significant impact on the receipt of such revenues. A description of some of Riverside County's procedures is included below.

Riverside County aggregates assessed values for all taxing entities early in the Fiscal year. These values are generally updated slightly later in the fiscal year, after the equalized values are available. It is these revised assessed value aggregations that serve as the basis for the County's beginning of the year estimates of revenue due. Changes to estimated revenues can occur throughout the fiscal year as a result of corrections to the tax roll, assessment appeals, tax refunds or tax delinquencies. In Riverside County, any revenue and/or taxable value changes that may occur after the County prepares its final estimates are accounted for

only on a County-wide basis. Taxing entities, other than redevelopment agencies, are impacted by these changes on a County-wide basis and are only indirectly impacted by changes within their specific jurisdictions. In the following fiscal year, any valuation changes which occurred are directly accounted for in the new fiscal year values reported by the County. Taxing entities in Riverside County also have the option to enroll in a Teeter plan for secured revenues, which provides that the County will allocate 100 percent of the secured taxes due regardless of whether such taxes have actually been paid.

Redevelopment Allocations: Taxes are allocated to redevelopment agencies somewhat differently from other taxing entities. It is the County's policy to allocate to redevelopment agencies 100 percent of the calculated tax increment due a redevelopment project area without adjustment for delinquencies, redemption payments or roll adjustments. (The exception to the Counties "hold harmless" policy is supplemental revenues, which are discussed below.) Redevelopment agencies are not impacted by these occurrences, even on a county-wide basis, until the following fiscal year when valuations change. The result of the policy is that the Project Area is somewhat insulated from the impacts of appeals, tax refunds and taxable value adjustments. This policy is set administratively and is therefore subject to change.

Supplemental revenues result from a one time "additional" assessment of property at the time of a change in ownership or completion of construction. These revenues are not included in the County's original estimates of revenues due redevelopment agencies. Supplemental assessments within redevelopment project areas are distributed subsequent to the time when the supplemental revenues are actually received by the County. Unlike other categories of tax increment revenues, supplemental revenues are not allocated based on any kind of estimate.

The majority of the tax increment revenues received by the Agency are disbursed by the County in two payments: 50% in January and 50% in May. Since 1989, unitary revenues have been disbursed separately, lagging behind tax increment disbursements by fifteen to sixty days. (The amount of unitary revenue allocated in 2006-07 to the Project Area was under \$50,000.) In addition, supplemental revenues are disbursed as collected, on a monthly basis.

Tax Receipts

As discussed above, the County pays redevelopment agencies 100 percent of the tax increment revenue due, based on its beginning of the year computations, not actual collections. Revenues allocated are affected by actual collections only because of supplemental assessments, which are disbursed as collected. Supplemental assessments almost always add to tax collections, although a negative supplemental assessment (or tax refund) can occur in situations when the sales price of a property is less than its existing market value. Over the last 5 years, supplemental revenues have caused actual tax receipts to exceed the County's initial tax levy amount in every year. A comparison of tax receipts to the tax levy amount is as follows:

Comparison of Tax Receipts to Estimated Levy

Fiscal Year	Estimated Tax Levy	Tax Increment Received	Percentage Received
2001-02	5,327,097	5,390,495	101.2%
2002-03	5,859,215	6,078,769	103.7%
2003-04	6,913,599	7,594,035	109.8%
2004-05	8,889,985	10,181,729	114.5%
2005-06	11,418,909	13,348,153	116.9%
2006-07	15,399,527	17,325,288	112.5%

The amounts shown above, both for the levies and the actual tax increment receipts, have not been reduced by the Agency's other obligations, even when such amounts have been retained by the County. See "Agency Obligations" section below for a description of impact on tax increment revenues of the Agency's pre-existing obligations.

Section F – Tax Increment Projections

Current and Projected Revenues

Current year (2007-08) assessed values and current year projections of gross tax increment and housing set-aside revenues are summarized on Table 6. The 2007-08 estimates of revenues are based on current year information, as reported by Riverside County. The only exception is the use of an artificially low 1.0 percent tax rate. The actual 2007-08 tax rate used to calculate tax increment revenue for the Project Areas will be slightly higher than 1.0%: the 2006-07 effective tax rate was 1.014 percent.

This is a challenging time to prepare estimates of future revenues. The real estate market in southern California has experienced unprecedented growth over the last 5+ years: new construction has been prominent, property values have been increasing at double digit rates and properties, particularly housing, have been selling quickly. That growth has definitely slowed in the last 6 to 12 months, but recognized economists differ as to their opinion as to the future of the real estate market in general, and housing in particular. For the current 2007-08 fiscal year, appraisal staff members in the County Assessor's office advised that the major valuation declines in Riverside County were experienced in the resort desert areas, such as Palm Springs and Indio. They further indicated that at the present time, there is insufficient information to determine what types of reductions, if any, may have occurred or may be occurring in the Riverside/west Moreno Valley area for 2008-09 or future fiscal years.

In addition, staff indicated that such declines can be “uneven”; that is certain residential tracks in an area may be impacted while other properties (residential or commercial) nearby are not.

Because of the limitations on valuation increases that are the result of Proposition 13, enacted in 1979, only properties that were reappraised in the last couple of years are vulnerable to reductions in the event market values decrease: the assessed values assigned to the balance of the properties would probably be below market values even if such values are reduced by 10 to 20 percent. Table 7 shows the valuations for the Project Area that have been reappraised each year since 2004-05, as reported in County assessment records. These values are prepared for information only and have not been factored into the revenue estimates shown in Table 8.

Future tax increment revenue projections are summarized in Table 8. Future revenues shown in the tables have been modified from the 2007-08 levels only to incorporate clearly identified factors that will change values. Potential future reductions to value as a result of the economy or general real estate values have not been incorporated. Assessed values and unitary revenue are assumed to remain at their 2007-08 levels for 2008-09 and thereafter unless modified by assessment appeals, new development, or the Proposition 13 inflationary growth. The specific elements which are assumed to modify future assessed values and/or revenues are as follows:

Impacts to Future Values	Assumptions
Positive Impacts	
Trended Taxable Value	Inflationary Trend has been Assumed for Portions of the Project with Transfer Dates Prior to 1/1/2004
New Development	Developments Completed or Under Construction Only
Negative Impacts	
Appeals	15 % Reduction in Filed Appeals

Trended Taxable Value: In California, real property values (land and improvements) are subject to an annual inflationary increase, as allowed under Proposition 13. The maximum inflation factor that county assessors can use to increase assessed values is two percent. Since Proposition 13 was enacted, the inflation factor has equaled the 2.0 percent maximum in most, but not all fiscal years. The application of a 2.0% inflationary increase is just about automatic when real estate prices are increasing at a rate consistent with, or greater than, inflation. When real estate values are not increasing, however, the factor would only be applied by the County to properties where the assessed value is less than the current market value. As approximately 50 percent of the assessed value of the Project Area is reported as having sold since January 1, 2004 (Table 7), it has been assumed that only the remaining 50 percent of the Project Area value is subject to the 2.0 percent inflationary trend. The

remaining 50 percent of the assessed value in the Project Area is assumed to remain at 2007-08 levels in 2008-08 and thereafter. This equates to an effective inflationary rate assumption of 1.0 percent of total project value. This trend is applied to those elements subject to the inflationary adjustments, i.e., land and improvements. Personal property is subject to annual appraisal and is assumed to remain constant throughout the projection.

New Development: Future year tax increment revenue estimates have been increased for new developments that have been recently completed or that are currently under construction. Development activity was obtained from Agency staff and confirmed through site visits and/or secondary sources. Amounts estimated as added are summarized on Table 9.

Appeals: Assumptions regarding the resolution of appeals that are utilized in the enclosed projections are as shown in Table 5 and are presented in the above "Assessment Appeals" section. Valuation reductions resulting from the resolution of appeals are assumed to occur in 2008-09. Refunds related to the resolution of these appeals have not been incorporated into the revenue projections as the County's practice for the allocation of those refunds holds redevelopment agencies harmless.

Section G – Agency Obligations

Deductions from Tax Increment Generated

The tax increment revenues for the Project Area are subject to certain Agency obligations as described in this section. The amount of each of these obligations has been quantified and is deducted from gross tax increment revenues in the projections of available revenues to the Agency.

33676 or 2.0% Payments: Section 33676 of the redevelopment law requires statutory payments to certain taxing entities for applicable projects. The law only applies to plan adoptions or additions which were completed in the late 1980's until 1993, and is only applicable to taxing entities without a written pass through agreement.

Specifically, the Law provided that a base year taxing entity without a formal tax sharing agreement with a redevelopment agency could still share in the Proposition 13 "automatic" 2.0 percent inflationary growth in a redevelopment project area by adopting a resolution of intention and filing it with the applicable county. Any base year taxing entity that filed the necessary paperwork at the time a redevelopment project was adopted would be eligible to receive its share of the 2.0 percent revenue.

A 2001 court case (Santa Ana Unified School District v. Orange County Development Agency), however, provided a precedent for school districts to be able to file years later to receive revenue generated by the automatic inflationary factor of up to 2.0 percent. Many school districts throughout the state have filed 33676 resolutions in the last few years and are currently receiving these payments. Indeed, some counties have determined to automatically begin making these payments to school districts from qualifying project areas.

For the Moreno Valley Redevelopment Project Area, the school districts have not previously followed the precedent allowed in the Santa Ana Case and have therefore not yet received

any automatic inflationary payments. Agency staff reports that at least one of the applicable school districts has recently adopted a resolution, as required under the Santa Ana case precedent, and thus is apparently now eligible to receive these payments from the Project Area tax increment revenues. For the purpose of this analysis, 33676 payments to all school districts with jurisdiction in the Project Area are assumed to be required starting in 2007-08.

As established in a California Attorney General's opinion, amounts payable to the school districts under 33676 resolutions are not considered tax increment revenue for the purpose of calculating the Agency's housing set-aside obligation.

Administrative Fees: Tax increment revenues are reduced by the County through a charge for property tax administrative costs. State law allows counties to charge taxing entities, including redevelopment agencies, for the cost of administering the property tax collection system. The fees have been estimated based on the County of Riverside's historical charges and are assumed to equal slightly less than one percent of tax increment revenue.

Housing Set-Aside: Redevelopment agencies are required to deposit not less than 20 percent of the tax increment generated in a project area into a special fund to be used for qualified low and moderate income housing programs. The Agency has and is assumed to continue to comply with this requirement. Amounts potentially due the school districts under the Santa Ana case precedent (2.0% Payments) have been deducted from gross tax increment revenues before calculating the 20 percent due to the housing fund in the revenue estimates included in Table 8. See section entitled "33676 or 2.0% Payments" above.

Tax Sharing Agreement/County: At the time the Project was adopted, the Agency entered into an agreement with the County of Riverside to share taxes generated by the Project Area by making payments referred to as pass through payments. The Agreement provides that the County receives no pass through payments until gross tax increment reaches an annual level of \$7 million. Once that threshold is reached, the County receives 100 percent of all tax increment generated (not just its share) over \$7 million, but less than \$12 million. In addition, the County is to receive 50 percent of all tax increment generated over \$12 million. Taxes reached the \$7 million threshold in 2003-04, thus triggering the County sharing in a portion of the revenue stream. Two years later, in 2005-06, Agency revenues exceeded the \$12 million threshold as well: the amount of gross revenue estimated to be generated in 2007-08 totals \$20.4 million.

Because of the provisions of the tax sharing agreement, while gross revenues are between \$7 million and \$12 million, the amount of net tax increment can actually decrease as gross revenues rise. This is because the Agency's obligation to the housing set-aside fund will increase as gross revenues increase over \$7 million, even though 100 percent of the increase is to be paid to the County. Once gross revenues exceed \$12 million, the Agency receives 50 percent of the revenue above \$12 million, resulting in net revenues increasing as gross revenues rise.

Gross tax increment revenues generated by the Project Area had been under \$7 million dollars for a number of years until fiscal 2003-04, when tax increment receipts equaled about \$7.5 million (See "Section E - Tax Allocation and Disbursement/Tax Receipts" above for information concerning total tax receipts.) The County neglected to retain the amount it was due per the Agreement in 2003-04. In addition, it only retained a portion of the total amount

it was due in 2004-05 and 2005-06. The County recognized its error in 2006-07 and deducted the amounts due for prior years from 2006-07 tax distributions. The Agency disputes the County's right to deduct prior year payments from then current year tax receipts.

The County's current practice related to its share of the tax increment revenues generated by the Project Area is to retain the amount it is due under the Agreement from tax increment revenues otherwise distributed to the Agency. The County computes the amount it will be due based on the terms of the Agreement and proportionately reduces payments to the Agency based on that estimated allocation. As a result, the tax distributions received by the Agency in future fiscal years should be based on net tax increment revenues, i.e., tax revenues less the County's proportionate share of the tax increment revenues. All previous tax sharing payments to the County have been calculated based on gross tax increment revenues. No deductions from amounts otherwise due the County have been assumed for projected 2.0 percent payments which may be paid to school districts commencing in 2007-08.

Tax Sharing Agreement/Flood Control District: The Agency also entered into an agreement with the Flood Control District to share certain taxes generated by the Project Area. The Agreement provides that the Agency does not owe the District any pass through payment until gross tax increment revenues equal \$12 million. At that time, the Agency agreed to pay to the District 50 percent of its share of tax increment revenue. In addition, the Agency will be obligated to pay to the District up to an additional 50 percent of its share, depending upon the cost of certain flood control improvements that the Agency may have completed. Specifically, if the Agency has completed a sufficient amount of specified flood control improvements, it may get to retain all or a portion of the remaining 50 percent of the District's share. For the purpose of estimating future tax increment revenues, it has been assumed that the Agency pays the Flood Control District 100 percent of its share of tax increment revenue, or about 5.1 percent of gross tax increment revenue, without any deduction for payments made to other taxing entities.

Tax increment revenues exceeded the \$12 million threshold in fiscal year 2005-06, although the County has not, as yet, retained the Flood Control District's share of revenue from the taxes otherwise disbursed to the Agency, nor has the Agency otherwise made provision to pay the Flood Control District directly. The amount potentially due to the Flood Control District for the two fiscal years totals approximately \$1.5 million. Agency staff reports that it has the \$1.5 million reserved to pay the District should the District or the County request payment.

Other Obligations

The Agency also has other obligations payable from tax revenues that have not been deducted from the tax increment revenue estimates shown in Table 8. Those obligations involve reimbursement for special tax levies for certain Community Facilities Bonds and certain other loans and other agreements with the City of Moreno Valley. Some of these obligations represent senior liens on revenues and some are or will be subordinate to the bonds. Deductions for these obligations have not been included in the enclosed revenue projections. The reader should refer to the Official Statement for the bonds for a description and quantification of those obligations.

Contingent Liabilities

The Redevelopment Plan for Project Area currently provides that the Agency cannot incur debt after December 29, 2007. This limitation was required to be added to the Project Area by legislation that was adopted in 1994, AB 1290. Legislation adopted in 2001, SB 211, provides that the Agency can eliminate this deadline by adopting an ordinance, although additional pass-through payment requirements would be triggered by this action.

Specifically, the Agency would be required to make AB 1290 pass-through payments if it eliminates its debt incurrence deadline. The additional pass-through payments would be based on increases in assessed values above 2007-08 levels. The amount of the AB 1290 pass-through obligations are first payable in an amount equal to 25 percent of non-housing tax increment revenues above 2007-08 levels. In addition, the portion of tax increment on which the Agency already pays pass-through payments because of existing tax sharing agreements would not be subject to the AB 1290 additional payments. In the Project Area, this means that only about 70 percent of the taxes would be included in the AB 1290 pass-through calculation. Because a portion of the revenue is exempt and the calculation is based on increases above future year levels, the actual amount passed through will be significantly less than 25 percent of the non-housing tax increment revenue. The specific amounts of the pass-through requirement will vary depending upon the actual growth in tax increment revenues. Because the Agency has not yet determined whether to pass a SB 211 ordinance, AB 1290 pass through payments have not been deducted from net tax revenues in the enclosed projections.

Section H – Other Issues

Current Legislative Requirements

Due to shortfalls in the state budget, the state has from time to time required that redevelopment agencies pay a certain portion of tax increment revenues into a state fund for schools, known as the Educational Revenue Augmentation Fund (ERAF). The required redevelopment payments offset the need for a similar amount of state aid to education. The Agency has been required to make ERAF contributions in the following fiscal years: 1993-94; 1994-95; 2002-03; 2003-04; 2004-05; 2005-06. The ERAF obligations, while based on tax increment revenues generated in the Project Area in previous fiscal years, has historically been payable from any source of funds of the Agency, with the exception of housing tax increment. The amounts of the ERAF contributions required from the Community Redevelopment Agency of the City of Moreno Valley since 2002-03 are shown below.

<u>Year</u>	<u>ERAF Pmt</u>
2002-03	172,943
2003-04	320,239
2004-05	609,365
2005-06	682,410

The state budgets for 2006-07 and 2007-08 were passed without the requirement for an additional ERAF contribution, although such a measure could possibly be adopted by the legislature in a future fiscal year.

Caveats

The value and revenue estimates contained in this Report are based upon information, data and assumptions believed to be reasonable and accurate. The assessment practices and county allocation procedures discussed in this Report are based on information provided by representatives of Riverside County. Assessment practices and allocation procedures are set, in part, administratively and can be changed. Nothing came to the fiscal consultant's attention during this review to indicate that any changes are imminent. The estimates of revenue are based on assumptions that are subject to a degree of uncertainty and variation and therefore are not represented as results that will actually be achieved: actual future levels of tax increment revenues could be higher or lower than amounts projected. The analyses presented herein, however, have been conscientiously prepared on the basis of the fiscal consultant's experience in the field of financial analysis for redevelopment agencies.

Table 1
 Community Redevelopment Agency of the City of Moreno Valley
 Moreno Valley Redevelopment Project Area
 Land Use Category Summary

Merged Project

Category	# of Assessments	2007-08 Value	Percentage
Residential	5,754	1,450,234,022	55.59%
Commercial	314	544,736,339	20.88%
Industrial	57	175,182,990	6.72%
Recreational	5	32,232,597	1.24%
Institutional	28	11,474,812	0.44%
Vacant Land	715	145,357,488	5.57%
SBE Non-Unitary (1)	-	-	0.00%
Unsecured (1)	983	109,597,900	4.20%
Possessory Interest (1)	269	10,316,800	0.40%
Other	530	129,533,980	4.97%
Total	8,655	2,608,666,928	100.00%

(1) Indicates the number of assessments in these categories but actually represent duplicate parcel counts. The total number of taxable parcels in the Project area equals 7,403.

 Source: Riverside County Tax Records

Table 2
 Community Redevelopment Agency of the City of Moreno Valley
 Moreno Valley Redevelopment Project Area
 Major Taxpayers

No.	Assessee	Use	Total 2007-08	% of Total Value	% of Incr. Value
1	Dav G Stonegate LLC	Legacy Apartments	88,368,000	3.4%	4.3%
2	Towngate Lot 12 Apartments	Santa Rosa Apartments	69,148,000	2.7%	3.4%
3	Ridge Moreno Valley	Centerpoint Business Park	55,883,829	2.1%	2.7%
4	BRE Properties	BRE Apartments	41,600,664	1.6%	2.0%
5	Homart Newco Two Inc. (1)	Retail	40,000,000	1.5%	2.0%
6	Cactus Commerce (2)	Industrial Warehouse	34,727,089	1.3%	1.7%
7	TSC	Retail	31,488,311	1.2%	1.5%
8	Broadstone at Valley View	Apartments	30,945,196	1.2%	1.5%
9	Walmart	Retail	20,782,543	0.8%	1.0%
10	Lowes HIW Inc.	Retail	16,536,084	0.6%	0.8%
TOTAL MAJOR ASSESSEES			429,479,716	16.5%	21.1%
TOTAL PROJECT AREA VALUE			2,608,666,928		

- (1) The value for this assessment was reduced to the amount shown several years ago as a result of the resolution a Proposition 8 appeal.
 (2) This recently completed industrial building is currently unoccupied.

 Source: Riverside County Tax Records.

Table 3
 Community Redevelopment Agency of the City of Moreno Valley
 Moreno Valley Redevelopment Project Area
 Historical Taxable Values

Fiscal Year	Locally-Assessed Secured Value	Unsecured Value	Total Taxable Value	Percentage Change
1992-93	1,136,700,180	64,074,413	1,200,774,593	N/A
1993-94	1,195,403,919	82,714,427	1,278,118,346	6.44%
1994-95	1,244,967,855	81,648,719	1,326,616,574	3.79%
1995-96	1,111,902,596	88,941,916	1,200,844,512	-9.48%
1996-97	1,050,584,563	81,802,132	1,132,386,695	-5.70%
1997-98	990,535,200	70,634,346	1,061,169,546	-6.29%
1998-99	942,919,717	73,918,602	1,016,838,319	-4.18%
1999-00	941,897,354	76,693,184	1,018,590,538	0.17%
2000-01	965,638,632	79,311,822	1,044,950,454	2.59%
2001-02	999,130,454	87,749,319	1,086,879,773	4.01%
2002-03	1,050,040,854	91,517,583	1,141,558,437	5.03%
2003-04	1,172,735,581	81,779,571	1,254,515,152	9.89%
2004-05	1,354,300,359	86,103,007	1,440,403,366	14.82%
2005-06	1,609,867,931	82,139,820	1,692,007,751	17.47%
2006-07	1,992,800,281	85,503,873	2,078,304,154	22.83%
2007-08	2,499,096,528	109,570,400	2,608,666,928	25.52%

Total 15-Year % Change	117.25%
Average 15-Year % Change	5.70%
Total 5-Year % Change	107.94%
Average 5-Year % Change	20.08%

 Source: Riverside County Auditor-Controller

Table 4
City of Moreno Valley
Historical Proposition 8 Reductions (1)

Fiscal Year	City of Moreno Valley (2)					County of Riverside				
	No. of Assmts	Total Assessed Value (AV)	Percentage Change	Assessed Value Reduction	Percentage of Total AV	No. of Assmts	Total Assessed Value (AV)	Percentage Change	Assessed Value Reduction	Percentage of Total AV
1994-95	19,363	5,415,238,185		433,885,737	8.0%	126,319	72,241,677,602		3,356,860,729	4.6%
1995-96	24,917	5,110,870,984	-5.6%	754,132,299	14.8%	175,016	72,492,855,548	0.3%	4,876,307,080	6.7%
1996-97	25,744	4,885,567,814	-4.4%	862,863,595	17.7%	200,662	72,474,728,709	0.0%	6,444,683,027	8.9%
1997-98	24,682	4,758,819,318	-2.6%	842,481,003	17.7%	203,183	73,424,218,753	1.3%	6,655,986,431	9.1%
1998-99	25,256	4,603,220,722	-3.3%	961,501,376	20.9%	216,584	74,690,549,113	1.7%	8,106,148,200	10.9%
1999-00	23,075	4,639,177,912	0.8%	931,822,107	20.1%	207,426	79,757,592,482	6.8%	7,687,636,687	9.6%
2000-01	21,086	4,856,230,519	4.7%	796,540,123	16.4%	167,388	88,025,025,469	10.4%	5,916,179,158	6.7%
2001-02	14,546	5,281,129,237	8.7%	542,781,096	10.3%	117,737	97,381,477,501	10.6%	4,085,698,505	4.2%
2002-03	7,911	5,704,231,309	8.0%	353,253,207	6.2%	80,206	108,271,316,869	11.2%	2,764,867,273	2.6%
2003-04	2,495	6,343,770,160	11.2%	197,821,902	3.1%	49,499	120,904,583,579	11.7%	1,972,097,293	1.6%
2004-05	468	7,451,775,432	17.5%	114,825,773	1.5%	34,173	138,842,009,323	14.8%	1,236,636,056	0.9%
2005-06	237	9,227,681,633	23.8%	58,197,781	0.6%	31,898	165,013,262,435	18.8%	787,960,099	0.5%
2006-07	166	11,400,969,085	23.6%	38,012,950	0.3%	27,893	203,619,374,057	23.4%	585,379,414	0.3%
2007-08 (3)	188	13,470,432,527	18.2%	12,651,596	0.1%	31,333	236,409,620,330	16.1%	610,070,683	0.3%

(1) Includes all types of Proposition 8 appeals, both appeals filed by the applicant and assessments reduced by the County Assessor's office without taxpayer request ("automatic" reductions).

(2) Data shown is for the entire City of Moreno Valley, including the Redevelopment Project Area.

(3) Assessment appeals for 2007-08 can be filed by the taxpayer through December 2007, although all automatic reductions processed for 2007-08 were completed by the Assessors office prior to August 2007.

Source: Riverside County Assessor Records

Table 5
Community Redevelopment Agency of the City of Moreno Valley
Moreno Valley Redevelopment Project Area
Pending Appeals (1)

APPLICANT	Parcel #	Years Outstanding	No. of Assmts.	Applicants Opinion	Contested Value (2)	Reduction Assumed (3)	Resolved Value	Est. Value Change
RESOLVED APPEALS (4)								
Bui Thuy T	291-535-010	2006	1		271,735	(140,879)	412,614	(140,879)
TOTAL RESOLVED			1	-	271,735	(140,879)	412,614	(140,879)
OUTSTANDING APPEALS (5)								
<u>Appeals Assumed to Impact 2007-08+ (5)</u>								
El Corte Ingles (Gottchalks)		2006	1	4,600,000	13,679,000			
JC Penney		2004 -2006	1	8,000,000	11,914,364			
Macy's		2006	1	15,676,185	10,805,850			
Sears		2005 - 2006	1	938,768	15,102,593			
Supreme Property West		2004 - 2006	2	2,511,165	6,631,369			
Five Star Enterprises		2006	2	3,352,000	5,585,110			
Other Current Appeals		2006	7	(2,140,419)	8,935,414			
TSC		2005	2	260,917	501,831			
Other Prior Year Appeals		2004 - 2005	7	2,720,415	6,894,163			
TOTAL OUTSTANDING		Varies	24	35,919,031	80,049,694	15%	68,042,240	(12,007,454)
GRAND TOTAL AV REDUCTION			N/A	N/A	N/A	N/A	68,454,854	(12,148,333)

ESTIMATED TAX REFUNDS (6)

N/A

- (1) Based on Riverside County appeal database, updated through May 17, 2007.
- (2) Amounts shown equal the value under dispute for the applicable year and do not necessarily equal the 2007-08 assessed values.
- (3) For outstanding appeals, the reduction amount shown is estimated. The estimated reduction is based on recent appeal resolution history for the Project Area.
- (4) Includes appeals resolved since December 2006 and/or appeals estimated to have an impact on assessed values in 2007-08 and thereafter.
- (5) Includes appeals filed for 2006-07 and prior fiscal years; information on appeals filed for 2007-08 was not available as of September 2007.
- (6) Because of the way in which Riverside County allocates taxes to redevelopment agencies, the Agency will not be impacted by any refunds paid to taxpayers because of valuation reductions resulting from appeals.

Source: Riverside County Assessor's Appeal Database

Table 6
Community Redevelopment Agency of the City of Moreno Valley
Moreno Valley Redevelopment Project Area
2007-08 Assessed Values and Revenues

Description	2007-08 Assessed Value	Base Year Value	Incremental Value
ASSESSED VALUES (1)			
Secured			
Land	719,909,818	194,102,637	525,807,181
Improvements	1,814,242,232	348,007,136	1,466,235,096
Personal Property	12,174,792	2,492,180	9,682,612
Subtotal	2,546,326,842	544,601,953	2,001,724,889
Other Exemptions	(47,230,314)	(2,988,915)	(44,241,399)
Secured Total	2,499,096,528	541,613,038	1,957,483,490
Unsecured			
Land	12,724	92,332	(79,608)
Improvements	50,089,804	13,225,373	36,864,431
Personal Property	59,582,955	13,905,425	45,677,530
Subtotal	109,685,483	27,223,130	82,462,353
Other Exemptions	(115,083)	-	(115,083)
Unsecured Total	109,570,400	27,223,130	82,347,270
TOTAL VALUE	2,608,666,928	568,836,168	2,039,830,760
Adjust for Outstanding Appeals	-	-	-
ADJUSTED VALUE	2,608,666,928	568,836,168	2,039,830,760
Tax Increment @ 1.0%			20,398,308
Estimated Unitary			49,196
GROSS TAX INCREMENT	-	-	20,447,504
OFFSETS TO TAX INCREMENT (2)			
Potential 33676 Payments			944,119
County Pass Through			9,223,752
Flood Control Pass Through			1,043,315
Housing Set-Aside			3,900,677
Administrative Charge			181,381
TAX REVENUES	-	-	5,154,260

(1) Actual 2007-08 values as reported by Riverside County, August 2007.

(2) Excludes any deductions attributable to the Agency's prior obligations towards assessment bonds.

Source: Riverside County Tax Records.

Table 7
 Community Redevelopment Agency of the City of Moreno Valley
 Moreno Valley Redevelopment Project Area
 Properties Reported as Transferring Since 1/1/2004 (1)

Description	Residential	Commercial/Other	Total
Sales 1/1/2004 to 12/31/2004			
No of Assessments	577	160	737
2007-08 Value	218,704,596	359,416,461	578,121,057
% of Total Project Value	15.1%	31.0%	22.2%
Sales 1/1/2005 to 12/31/2005			
No of Assessments	703	153	856
2007-08 Value	223,766,353	258,579,130	482,345,483
% of Total Project Value	15.4%	22.3%	18.5%
Sales 1/1/2006 to 12/31/2006			
No of Assessments	606	61	667
2007-08 Value	219,924,715	41,457,823	261,382,538
% of Total Project Value	15.2%	3.6%	10.0%
Grand Total Sales 1/1/2004 to 12/31/2006			
No of Assessments	1,886	374	2,260
2007-08 Value	662,395,664	659,453,414	1,321,849,078
% of Total Project Value	45.7%	56.9%	50.7%
TOTAL 2007-08 PROJECT VALUES	1,450,234,022	1,158,432,906	2,608,666,928

(1) Includes assessments that are designated as having transferred within the timelines indicated. It is possible that some properties that transferred are not so designated in the assessment records and that others did not result in an assessment increase.

Source: Riverside County Assessor and Recorder Records

Table 8
Community Redevelopment Agency of the City of Moreno Valley
Moreno Valley Redevelopment Project Area
Tax Increment Projection

Fiscal Year	Prior (1) Year Value	Appeals (2)	New Dev. (3)	Incremental Value	Gross Tax Revenue (4)	33676 (5) Pass Thru	County Admin Chg	Housing Set-Aside (6)	County Agrmt Pass Thru (7)	Flood Control Agreement (8)	Net Tax Revenue	\$821 Million Cumulative Net TI/Limit (9)
Thru 2006-07												\$85,700,000
2007-08	2,608,666,928	-	-	2,039,830,760	20,447,504	944,119	181,381	3,900,677	9,223,752	1,043,315	5,154,260	91,035,641
2008-09	2,634,036,020	(12,148,333)	120,945,000	2,173,996,519	21,789,161	1,004,295	193,270	4,156,973	9,894,581	1,111,937	5,428,106	96,657,017
2009-10	2,769,543,436	-	10,780,000	2,211,487,268	22,164,069	1,065,674	196,595	4,219,679	10,082,034	1,131,112	5,468,974	102,322,586
2010-11	2,807,409,093	-	-	2,238,572,925	22,434,925	1,128,281	198,998	4,261,329	10,217,463	1,144,966	5,483,890	108,005,474
2011-12	2,834,765,606	-	-	2,265,929,438	22,708,490	1,192,140	201,424	4,303,270	10,354,245	1,158,958	5,498,454	113,705,351
2012-13	2,862,395,685	-	-	2,293,559,517	22,984,791	1,257,276	203,875	4,345,503	10,492,396	1,173,090	5,512,652	119,421,879
2013-14	2,890,302,064	-	-	2,321,465,896	23,263,855	1,323,714	206,350	4,388,028	10,631,927	1,187,363	5,526,472	125,154,701
2014-15	2,918,487,508	-	-	2,349,651,340	23,545,709	1,391,482	208,850	4,430,846	10,772,855	1,201,779	5,539,898	130,903,449
2015-16	2,946,954,805	-	-	2,378,118,637	23,830,382	1,460,605	211,375	4,473,956	10,915,191	1,216,339	5,552,916	136,667,741
2016-17	2,975,706,776	-	-	2,406,870,608	24,117,902	1,531,110	213,926	4,517,358	11,058,951	1,231,045	5,565,512	142,447,179
2017-18	3,004,746,266	-	-	2,435,910,098	24,408,297	1,603,025	216,502	4,561,054	11,204,148	1,245,898	5,577,669	148,241,350
2018-19	3,034,076,151	-	-	2,465,239,983	24,701,596	1,676,379	219,103	4,605,043	11,350,798	1,260,899	5,589,373	154,049,826
2019-20	3,063,699,335	-	-	2,494,863,167	24,997,828	1,751,200	221,731	4,649,326	9,918,529	1,276,051	7,180,992	161,452,549
2020-21	3,093,618,751	-	-	2,524,782,583	25,297,022	1,827,517	224,385	4,693,901	9,148,511	1,291,354	8,111,355	169,788,289
2021-22	3,123,837,361	-	-	2,555,001,193	25,599,208	1,905,361	227,065	4,738,769	9,299,604	1,306,809	8,121,600	178,136,953
2022-23	3,154,358,157	-	-	2,585,521,989	25,904,416	1,984,761	229,772	4,783,931	9,452,208	1,322,420	8,131,324	186,498,049
2023-24	3,185,184,161	-	-	2,616,347,993	26,212,676	2,065,749	232,506	4,829,385	9,606,338	1,338,187	8,140,510	194,871,066
2024-25	3,216,318,426	-	-	2,647,482,258	26,524,019	2,148,358	235,268	4,875,132	9,762,009	1,354,111	8,149,141	203,255,475
2025-26	3,247,764,032	-	-	2,678,927,864	26,838,475	2,232,618	238,057	4,921,171	9,919,237	1,370,194	8,157,196	211,650,728
2026-27	3,279,524,095	-	-	2,710,687,927	27,156,075	2,318,564	240,874	4,967,502	10,078,038	1,386,439	8,164,659	220,056,261
2027-28	3,311,601,759	-	-	2,742,765,591	27,476,852	2,406,228	243,720	5,014,125	10,238,426	1,402,846	8,171,508	228,471,489
2028-29	3,344,000,199	-	-	2,775,164,031	27,800,836	2,495,646	246,593	5,061,038	10,400,418	1,419,416	8,177,725	236,895,807
2029-30	3,376,722,623	-	-	2,807,886,455	28,128,061	2,586,852	249,496	5,108,242	10,564,030	1,436,153	8,183,288	245,328,591
2030-31	3,409,772,272	-	-	2,840,936,104	28,458,557	2,679,882	252,427	5,155,735	10,729,279	1,453,057	8,188,177	253,769,195
2031-32	3,443,152,417	-	-	2,874,316,249	28,792,358	2,774,773	255,388	5,203,517	10,896,179	1,470,130	8,192,371	262,216,955
2032-33	3,476,866,364	-	-	2,908,030,196	29,129,498	2,871,562	258,379	5,251,587	11,064,749	1,487,374	8,195,848	270,671,181
2033-34	3,510,917,450	-	-	2,942,081,282	29,470,009	2,970,286	261,399	5,299,945	11,235,004	1,504,790	8,198,585	279,131,165
2034-35	3,545,309,047	-	-	2,976,472,879	29,813,925	3,070,985	264,450	5,348,588	11,406,962	1,522,380	8,200,560	287,596,175
2035-36	3,580,044,560	-	-	3,011,208,392	30,161,280	3,173,698	267,531	5,397,516	11,580,640	1,540,146	8,201,749	296,065,454
2036-37	3,615,127,428	-	-	3,046,291,260	30,512,109	3,278,465	270,642	5,446,729	11,756,054	1,558,090	8,202,128	304,538,225
2037-38	3,650,561,125	-	-	3,081,724,957	30,866,446	3,385,328	273,785	5,496,224	11,933,223	1,576,213	8,201,673	313,013,683

- (1) Actual assessed values as reported by the County June 29, 2007. Article XIII A of the California Constitution allows for an annual inflationary adjustment not to exceed 2.0% per year. Fifty percent of the 2007-08 value for the Project Area is assumed to increase at the 2.0% maximum rate. This represents the assessed value for properties which, per County records, transferred ownership prior to January 1, 2004. The balance of the 2007-08 assessed value is assumed to remain constant at 2007-08 levels.
- (2) See Table 5 for information on appeals.
- (3) Value is estimated to be added to the Project Area as a result of new development that was under construction and/or completed but not yet reflected on the tax roll as of August 2007. See Table 9 for additional information.
- (4) Calculated at a 1.0% tax rate, plus \$49,196 in unitary revenue. See Fiscal Report for additional information.
- (5) Payments to the school districts are assumed to be required commencing in the 2007-08 fiscal year pursuant to a 2001 court case referred to as the Santa Ana case, which case allowed school districts that did not file the necessary paperwork could do so years later and thus be eligible to receive payments under the former section 33676 of the Redevelopment Law. Per an attorney general's opinion these payments are not required to count as tax increment revenue and therefore are not subject to the housing set-aside requirement.
- (6) The Housing Set-Aside obligation for the Project Area has been calculated based on Gross Tax Revenue, less the "33676 Pass Thru" amounts. See Note 4 above.
- (7) Estimated payments due to the County based on Gross Tax Revenues and the terms of a tax sharing agreement between the Agency and the County. See "Agency Obligations" section in the Fiscal Report for additional information.
- (8) Estimated payments due to the Flood Control District based on Gross Tax Revenues and the terms of a tax sharing agreement between the Agency and the District. See "Agency Obligations" section in the Fiscal Report for additional information.
- (9) The tax increment limit is \$821 million. This limit is to be applied to net tax increment; after deducting the housing set-aside and any pass through payments per 33401. Per the language in the Plan, the numbers shown above subtract from gross tax increment, the "Housing Set-Aside", the "County Agrmt Pass Thru" and the Flood Control Agreement" obligation, but not the "33676 Pass Thru" obligation.

Table 9
Community Redevelopment Agency of the City of Moreno Valley
Moreno Valley Redevelopment Project
New Development Detail

Description	Sq. Ft/Units	Net Added	Start	Complete	2008-09	2009-10	2010-11	2011-12
COMPLETED OR UNDER CONSTRUCTION								
Town Gate								
Applebee's	5,400	1,200,000	Dec-06	Jul-07	1,200,000			
Panda Express	2,450	500,000	Feb-07	Sep-07	500,000			
Costco expansion	11,800	1,100,000	Feb-07	Oct-07	1,100,000			
Bravo Burgers	3,000	825,000	Jan-07		825,000			
Centerpointe								
Minka Lighting (Ridge Bldg 6)	533,000	11,800,000	Jan-06	Jan-07	11,800,000			
Moreno Valley Health & Wellness Ctr	130,000	2,200,000	Jan-06	Jun-07	2,200,000			
Ridge Property Trust								
Building 4	779,000	41,800,000	Sep-06	Sep-07	41,800,000			
Building 5	180,000	3,300,000	Sep-06	Sep-07	3,300,000			
Building 8	231,380	13,000,000	Jan-07	Jan-08	9,100,000	3,900,000		
Building 9	130,000	5,100,000	Sep-06	Sep-07	5,100,000			
Focus Estates		-						
Bay Ave Apartments/1 Bdrm	56	4,700,000	Sep-06	Jul-08	4,700,000			
Commercial on Alessandro	30,000	3,400,000	Sep-06	Jul-07	3,400,000			
Cactus Commerce Center	16,000	1,600,000	Sep-06	Jul-07	1,600,000			
Perris Isle Senior Apartments	189	Tax Exempt	Mar-07	Mar-09				
Stoneridge Ranch		-						
Commercial		-						
SuperTarget	178,665	17,000,000	Sep-06	Jul-07	13,600,000	3,400,000		
Kohl's	96,350	9,200,000	Sep-06	Oct-07	7,360,000	1,840,000		
Bldg A	7,370	700,000	Sep-06	Oct-07	560,000	140,000		
Bldg B	7,000	700,000	Sep-06	Oct-07	560,000	140,000		
Bldg C	45,650	4,300,000	Sep-06	Oct-07	3,440,000	860,000		
Bldg D	17,950	1,700,000	Sep-06	Oct-07	1,360,000	340,000		
PFF Bank & Trust (Bldg 1)	5,200	800,000	Sep-06	Oct-07	640,000	160,000		
Beazer Tract 32836 - sfd on Nason	43	4,500,000		Apr-07	4,500,000			
Beazer Tract 32835 - Townhomes on Eucalyptus	10	2,300,000			2,300,000			
GRAND TOTAL/UNDER CONSTRUCTION	N/A	131,725,000	N/A	N/A	120,945,000	10,780,000	-	

APPENDIX H

**AUDITED FINANCIAL STATEMENTS OF THE COMMUNITY REDEVELOPMENT AGENCY OF
THE CITY OF MORENO VALLEY FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**REDEVELOPMENT AGENCY OF THE
CITY OF MORENO VALLEY, CALIFORNIA
FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED JUNE 30, 2006**

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**REDEVELOPMENT AGENCY OF THE
CITY OF MORENO VALLEY**

June 30, 2006

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Board of Directors
Redevelopment Agency of the City of Moreno Valley
Moreno Valley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Moreno Valley ("Agency"), a component unit of the City of Moreno Valley, California, as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the Redevelopment Agency of the City of Moreno Valley. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and each major fund of the Redevelopment Agency of the City of Moreno Valley at June 30, 2006, and the respective changes in financial position of the Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Redevelopment Agency of the City of Moreno Valley's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors
Redevelopment Agency of the City of Moreno Valley
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2007 on our consideration of the Redevelopment Agency of the City of Moreno Valley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McLean P.C.

Irvine, California
January 30, 2007

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>	
Assets:		
Cash and investments		\$ 17,229,967
Receivables:		
Accounts	\$ 264,891	
Interest	64,562	
Loans	<u>6,372,376</u>	
Total Receivables		6,701,829
Due from other governments		294,861
Advances to the City of Moreno Valley		317,999
Nondepreciated capital assets		
Land	7,179,757	
Depreciable capital assets		
Building	<u>11,503,946</u>	
Total Capital Assets		<u>18,683,703</u>
Total Assets		<u>43,228,359</u>
Liabilities:		
Accounts payable and accrued expenses		1,068,013
Due to other governments		1,350,783
Other current liabilities		95,925
Long-term liabilities:		
Due within one year	200,000	
Due in more than one year	<u>32,279,932</u>	
Total Long-Term Liabilities		<u>32,479,932</u>
Total Liabilities		<u>34,994,653</u>
Net Assets:		
Invested in capital assets, net of related debt		18,546,530
Restricted for:		
Low & Moderate Housing		15,295,134
Unrestricted (deficit)		<u>(25,607,958)</u>
Total Net Assets		<u>\$ 8,233,706</u>

See Notes to the Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Governmental Activities:					
General government	\$ 1,164,534	\$ -	\$ -	\$ -	\$ (1,164,534)
Community development	3,985,331	-	-	-	(3,985,331)
Interest on long-term debt	1,900,411	-	-	-	(1,900,411)
Total Governmental Activities	\$ 7,050,276	\$ -	\$ -	\$ -	(7,050,276)
General Revenues:					
Taxes (net of pass-through payments)					6,434,589
Intergovernmental					878,106
Use of money and property					544,674
Total General Revenues					7,857,369
Change in Net Assets					807,093
Net Assets at Beginning of Year					6,685,359
Restatement of Net Assets					741,254
Net Assets at End of Year					\$ 8,233,706

See Notes to the Basic Financial Statements

**REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY
GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

	<u>Capital Projects</u>		
	<u>Moreno Valley Redevelopment Project</u>	<u>Moreno Valley Redevelopment Project</u>	
		<u>Low and Moderate Housing</u>	<u>Total Governmental Funds</u>
	<u>Project</u>		
Assets:			
Cash and investments	\$ 7,656,837	\$ 9,573,130	\$ 17,229,967
Receivables:			
Accounts	-	264,891	264,891
Interest	-	64,562	64,562
Loans	-	6,372,376	6,372,376
Due from other governments	294,861	-	294,861
Advances to City	317,999	-	317,999
	<u>317,999</u>	<u>-</u>	<u>317,999</u>
Total Assets	<u>\$ 8,269,697</u>	<u>\$ 16,274,959</u>	<u>\$ 24,544,656</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 144,216	\$ 923,797	\$ 1,068,013
Due to other governments	1,350,783	-	1,350,783
Deferred revenue	-	64,562	64,562
Accrued payroll	39,897	56,028	95,925
	<u>39,897</u>	<u>56,028</u>	<u>95,925</u>
Total Liabilities	<u>1,534,896</u>	<u>1,044,387</u>	<u>2,579,283</u>
Fund Balances:			
Reserved:			
Encumbrances	392,921	9,280,939	9,673,860
Long Term Receivables	-	6,372,376	6,372,376
Advances to City	317,999	-	317,999
Unreserved:			
Designated:			
Continuing Projects	1,166,738	-	1,166,738
Undesignated	4,857,143	(422,743)	4,434,400
Total Fund Balances	<u>6,734,801</u>	<u>15,230,572</u>	<u>21,965,373</u>
Total Liabilities and Fund Balances	<u>\$ 8,269,697</u>	<u>\$ 16,274,959</u>	<u>\$ 24,544,656</u>

See Notes to the Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Fund balances of governmental funds	\$ 21,965,373
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	18,683,703
Deferred revenue is present in governmental fund financial statements to indicate that receivables are not available currently; however, in the Statement of Net Assets these deferrals are eliminated.	64,562
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Developer loans	(2,818,937)
Loans from City	<u>(29,660,995)</u>
Net assets of governmental activities	<u>\$ 8,233,706</u>

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	Capital Projects		Total Governmental Funds
	Moreno Valley Redevelopment Project	Moreno Valley Redevelopment Project	
	Project	Low and Moderate Housing	
Revenues:			
Taxes and assessments	\$ 11,232,908	\$ 2,673,012	\$ 13,905,920
Use of money and property	270,059	274,615	544,674
Other revenue	734,494	121,264	855,758
Total Revenues	12,237,461	3,068,891	15,306,352
Expenditures:			
Current:			
General government	345,006	819,528	1,164,534
Public Safety	-	58,000	58,000
Community development	15,296,979	271,471	15,568,450
Debt service:			
Interest expense	1,900,411	-	1,900,411
Long-term debt repayments	1,368,429	-	1,368,429
Total Expenditures	18,910,825	1,148,999	20,059,824
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,673,364)	1,919,892	(4,753,472)
Other Financing Sources (Uses):			
Proceeds from advances	13,776,495	-	13,776,495
Pass-through agreement payments	(6,788,921)	-	(6,788,921)
Payment to Educational Revenue Augmentation Fund	(682,410)	-	(682,410)
Total Other Financing Sources (Uses)	6,305,164	-	6,305,164
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (368,200)	\$ 1,919,892	\$ 1,551,692
Fund Balances:			
Beginning of Year	\$ 7,103,001	\$ 13,310,680	\$ 20,413,681
Net Change in Fund Balances	(368,200)	1,919,892	1,551,692
End of Year	\$ 6,734,801	\$ 15,230,572	\$ 21,965,373

See Notes to the Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 1,551,692
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the statement of activities because:	
Governmental funds report capital outlay as expenditures. However in the statement of activities the cost of those assets is capitalized and allocated over their useful lives through depreciation expense.	137,173
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	(904,120)
Collections on receivables and loan transactions offset by deferred revenue are reported as revenue and expenditures in governmental funds; however, they do not provide revenue or expenses in the Statement of Activities.	<u>22,348</u>
Changes in net assets of governmental activities	<u>\$ 807,093</u>

**REDEVELOPMENT AGENCY OF THE
CITY OF MORENO VALLEY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2006**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Redevelopment Agency of the City of Moreno Valley, California, is a component unit of a reporting entity that consist of the following primary and component units:

Reporting Entity:

Primary Government:

City of Moreno Valley

Component Units:

Redevelopment Agency of the City of Moreno Valley
Community Services District of the City of Moreno Valley
Community Facilities Districts No. 2 and No. 3
Towngate Community Facilities District No. 87-1
Moreno Valley Public Facilities Financing Corporation
Moreno Valley Public Financing Authority
Industrial Development Authority

The attached basic financial statements contain information relative only to the Redevelopment Agency of the City of Moreno Valley as one component unit, which is an integral part of the total reporting entity. They do not contain financial data relating to the other component units.

The Redevelopment Agency of the City of Moreno Valley (the Agency) was created by a City Council ordinance adopted on February 18, 1986. The Agency was established pursuant to the State of California Health and Safety Code, Section 33000, entitled Community Redevelopment Law. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas within the City of Moreno Valley (the City).

Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either: a) the primary government has the ability to impose its will, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Since the City Council of the City of Moreno Valley also serves as

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

a. Description of the Reporting Entity (Continued)

the Governing Board of the Agency, the City, in effect, has the ability to influence and control operations. Therefore, the City has oversight responsibility for the Agency. Accordingly, in applying the criteria of GASB Statement No. 14, the financial statements of the Agency are included in the City's Comprehensive Annual Financial Report. There are no other entities that are considered to be component units of the Agency. The Agency has the same fiscal year end as the City and its financial statements can be obtained from the City Clerk.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

The Project Fund accounts for the tax increment received, and the debt service and rehabilitation expenditures made by the Agency.

The Low and Moderate Housing Fund accounts for 20% of the tax increment that is set aside for low and moderate housing activities.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

d. Assets, Liabilities and Net Assets or Equity

1. Investments

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

d. Assets, Liabilities and Net Assets or Equity (Continued)

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 90 days) to be used to pay liabilities of the current period. The County of Riverside collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

d. Assets, Liabilities and Net Assets or Equity (Continued)

In accordance with GASB Statement No. 34, the Agency is required to report general infrastructure assets. The Agency does not own any infrastructure capital assets except for land and building for the year ended June 30, 2006.

Buildings are depreciated using the straight-line method over the estimated useful life of 50 years.

5. Deferred Revenue

The government reports unearned revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. Budgetary Data

General Budget Policies

Budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for all Governmental Fund types. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various Agency departments.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 2: Stewardship, Compliance and Accountability (Continued)

Reported budget amounts represent the original legally adopted budget as amended. The City Council, acting as the Agency Board, may amend the budget only by a duly adopted minute resolution during a regular meeting, providing that sufficient monies are available and that expenditures of proceeds of taxes will not be increased beyond the constitutional appropriations limit as imposed by Article XIII B of the State Constitution.

Individual fund budgets are, in all cases where appropriations are required, the same as the appropriation amounts. In the case of the governmental fund types, unexpended budgeted amounts, except for amounts relating to capital projects, lapse at the end of the budget year. Spending control for most funds is established by the amount of expenditures budgeted for each department within the fund, but management control is exercised at budgetary line item levels within the departments. Management can transfer budgeted amounts between line items within each department provided that they do not increase or decrease total department appropriations. Expenditures may not legally exceed budgeted appropriations at the department and fund levels.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Unexpended and unencumbered appropriations of the governmental funds automatically lapse at the end of the fiscal year. Encumbrances at year-end are a portion of the reserved fund balance and are reappropriated the following year.

Budget Basis Accounting

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 3: Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	<u>\$17,229,967</u>
---	---------------------

The Agency's funds are pooled with the City of Moreno Valley's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the annual report of the City.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 4: Long-Term Receivables

Long-Term receivables of \$6,672,376 consist primarily of loans and advances for development purposes.

Note 5: General Capital Assets

A summary of changes in general capital assets follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Non-Depreciable Assets:				
Land	\$7,042,584	\$ 137,173	\$ -	\$ 7,179,757
Depreciable Assets:				
Building	-	11,503,946	-	11,503,946
Total Capital Assets	<u>\$7,042,584</u>	<u>\$11,641,119</u>	<u>\$ -</u>	<u>\$18,683,703</u>

Note 6: Advances from City

The Towngate Regional Mall notes (Sears Note), totaling \$13,000,000, originated from a participation agreement (as amended) whereby the Agency acquired certain parcels within the mall for subsequent transfer to major tenants. The notes bear interest of 7.25% and are payable solely from available site-generated property tax increment and up to 50% of site-generated sales tax. Furthermore, the Agency had covenanted to use reasonable best efforts to refinance these notes with Tax Allocation Bonds, provided such financing is determined to be fiscally feasible. At June 30, 2006, accrued interest amounted to \$3,799,618. During 2003-2004, the City purchased the rights to the notes from the holder. These amounts are now payable to the City and were previously reported in the Project Fund and are now reported as a long term liability in the government-wide financial statements.

The Agency purchased improved property from the City – the Conference and Recreation Center. The purchase price was \$14,203,946. The loan note is \$11,503,946 after the initial payment of \$2,700,000. The term is 20 years with 12% simple interest. The Agency will make interest only annual payments with a balloon payment due at the end of the term.

Note 7: Long-Term Liabilities

- a. A description of the Agency’s long-term liabilities outstanding as of June 30, 2006 is a follows:

Note Payable, Price Company

The Agency has recorded a long-term payable in the amount of \$2,462,131 under a development and disposition agreement and promissory note with Price Company for the reimbursement of costs of construction of a 130,000 square-foot-retail store. The note bears interest at 8% per annum and is payable solely from 50% of site-generated sales tax. Any remainder payable after September 2015 will be forgiven. At June 30, 2006, accrued interest amounted to \$356,806.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 7: Long-Term Liabilities (Continued)

b. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Adjustments	Additions	Repayments	Balance June 30, 2006	Due Within One Year
Moreno Valley Redevelopment Project						
City Loans – Principal	\$13,467,077	\$ -	\$11,503,946	200,000	\$24,771,023	200,000
City Loans – Unpaid Interest	4,349,873	(741,254)	2,032,855	751,502	4,889,972	-
Price Company Note	2,462,131	-	-	-	2,462,131	-
Price Company matured interest	<u>534,039</u>	<u>-</u>	<u>239,694</u>	<u>416,927</u>	<u>356,806</u>	<u>-</u>
Total	<u>20,813,120</u>	<u>(741,254)</u>	<u>13,776,495</u>	<u>1,368,429</u>	<u>32,479,932</u>	<u>200,000</u>
Total – All Project Areas						
City Loans – Principal	\$13,467,077	\$ -	\$11,503,946	\$200,000	\$24,771,023	200,000
City Loans – Unpaid Interest	4,349,873	(741,254)	2,032,855	751,502	4,889,972	-
Developer Loans - Principal	2,462,131	-	-	-	2,462,131	-
Developer Loans - Unpaid Interest	<u>534,039</u>	<u>-</u>	<u>239,694</u>	<u>416,927</u>	<u>356,806</u>	<u>-</u>
Total	<u>\$20,813,120</u>	<u>(741,254)</u>	<u>13,776,495</u>	<u>1,368,429</u>	<u>\$32,479,932</u>	<u>200,000</u>
Net Long-term debt					<u>\$32,479,932</u>	

Annual maturities for long-term debt are not presented, as fixed maturities have not been established.

IV. OTHER DISCLOSURES

Note 8: Long-Term Payable to the City of Moreno Valley

The long-term payable to the City of Moreno Valley, totaling \$267,077 (exclusive of Towngate Regional Mall notes and the Conference and Recreation Center note – See Note 6), represents remaining monies borrowed in prior fiscal years by the Agency to finance redevelopment activities. The stated interest rate is commensurate with the rate paid by the State of California Local Agency Investment Fund. Repayment of the long-term payable is made when funds become available.

Note 9: Commitments and Contingencies

Riverside County Agreement

During December 1987, the City of Moreno Valley and the Agency entered into an agreement with the County of Riverside to reimburse the County for the portion of tax increment the County would have been allocated and paid had there not been a redevelopment project adopted in the City. The Agency receives these amounts up to \$7 million annually. The County will receive all annual tax increment in excess of \$7 million until the total increment reaches \$12 million and half of annual tax increment in excess of \$12 million. When total tax increment paid to the County under this agreement from increments between \$7 million and \$12 million reaches \$75 million, tax increment in excess of \$7 million annually will be split equally between the Agency and County.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 9: Commitments and Contingencies, (Continued)

During April 1988, the City of Moreno Valley and the Agency entered into an agreement with the Riverside County Flood Control and Water Conservation District (District) which specifies that the Agency shall receive 100% of the District share of the Tax Increment until such time the total Tax Increment exceeds \$12 million at which time the District shall receive at least 50% of its share.

The Agency must annually demonstrate, on a project by project basis, that the cumulative project costs paid by the Agency for the project improvements exceed the cumulative total of District share received by the Agency. To the extent that the cumulative project costs paid by the Agency exceed the cumulative total of District share received by the Agency, the Agency will receive the balance needed from the remaining 50% of the District share.

Beginning in 2004-2005 the Agency's tax increment exceeded \$7 million. The County deducts its proportionate share from the Agency's remittances. The amount retained by the County is included in Other Financing Sources – Pass Through Agreement Payments in the financial statements. An additional amount of \$1,350,784 was not remitted to the County and has been included in Due to Other Governments.

Community Facilities District No. 3 Agreement

In conjunction with the issuance of the Moreno Valley Auto Mall Special Tax Bonds Series 2000 (Auto Mall Refinancing), the Agency and the City are parties to an owner participation agreement which provides that the Agency will transmit to the District the available property tax increment it receives on parcels within the District as a credit against the special parcel taxes that otherwise would be payable by the owners. Furthermore, the City has agreed to loan the Agency available sales tax generated within the District for payment directly to the parcel owners should the increment be insufficient to offset the special parcel taxes. In addition, the Agency has agreed to pay to the parcel owners, subject to certain restrictions, certain available surplus sales tax from within the District. The obligations to remit sales tax terminate by December 1, 2010.

This agreement replaces a previous arrangement involving these parcels when they were included in Community Facilities District No. 2.

The amounts remitted during the year under the replacement and previous agreement to parcel owners totaled \$1,065,477.

Community Facilities District No. 87-1 Agreement

In connection with the issuance of the Community Facilities District No. 87-1 (CFD) Bonds, Series A and B, the City of Moreno Valley and the Agency entered into an owner participation agreement whereby the Agency has committed tax increment for the payment of debt service requirements for these Bonds.

**Redevelopment Agency of the City of Moreno Valley
Notes to the Basic Financial Statements (Continued)**

Note 9: Commitments and Contingencies, (Continued)

Other Agreements

The Agency entered into an ownership participation agreement in February 2000 to fund, on a reimbursement basis, the cost of public infrastructure improvements required for a proposed 49,000 square-foot manufacturing facility. The Agency's commitment is not to exceed \$325,000 and is payable incrementally over five years ending in 2006, upon completion of the improvements and the manufacturing facility.

Self-Insurance

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and injuries to employees. The City of Moreno Valley established two self-insurance funds (internal service funds) to account for and finance its uninsured risks of loss. Under this program, the self-insurance funds provide coverage for up to a maximum of \$300,000 for each workers' compensation claim and \$250,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage provided by the funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. All funds of the Agency participate in the program and make payments to the self-insurance funds based on actuarial estimates of the amounts needed to pay prior and current year claims.

Note 10: Restatement to Beginning Net Assets

During the year ended June 30, 2006, the city discovered that interest paid by the Community Redevelopment Agency on a City loan in FY 2005 had not been applied to the loan to reduce the accrued interest payable. To correct this oversight, an adjustment was made to increase the Community Redevelopment Agency's net assets at the beginning of the fiscal year.

	Government- <u>Wide</u>
Net assets at beginning of year, as previously reported	\$6,685,359
Adjustment to record interest on advances credited to prior year	<u>741,254</u>
Net assets at beginning of year, as restated	<u>\$7,426,613</u>

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

COMBINING PROJECT AREA BALANCE SHEET
ALL DEBT SERVICE AND CAPITAL PROJECTS FUNDS

YEAR ENDED JUNE 30, 2006

	<u>Moreno Valley Redevelopment Project</u>		<u>TOTAL</u>
	<u>Capital Projects</u>		
	<u>Project</u>	<u>Low and Moderate Housing</u>	
ASSETS			
Cash and investments	\$ 7,656,837	\$ 9,573,130	\$ 17,229,967
Receivables:			
Accounts	-	264,891	264,891
Interest	-	64,562	64,562
Loans	-	6,372,376	6,372,376
Due from other governments	294,861	-	294,861
Advances to City	317,999	-	317,999
	<u>317,999</u>	<u>-</u>	<u>317,999</u>
Total Assets	<u>\$ 8,269,697</u>	<u>\$ 16,274,959</u>	<u>\$ 24,544,656</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 144,216	\$ 923,797	\$ 1,068,013
Due to other governments	1,350,783	-	1,350,783
Deferred revenue	-	64,562	64,562
Accrued payroll	39,897	56,028	95,925
	<u>39,897</u>	<u>56,028</u>	<u>95,925</u>
Total Liabilities	<u>1,534,896</u>	<u>1,044,387</u>	<u>2,579,283</u>
Fund Balances:			
Reserved:			
Encumbrances	392,921	9,280,939	9,673,860
Long Term Receivables	-	6,372,376	6,372,376
Advances to City	317,999	-	317,999
Unreserved:			
Designated:			
Continuing projects	1,166,738	-	1,166,738
Undesignated	4,857,143	(422,743)	4,434,400
	<u>4,857,143</u>	<u>(422,743)</u>	<u>4,434,400</u>
Total Fund Balances	<u>6,734,801</u>	<u>15,230,572</u>	<u>21,965,373</u>
Total Liabilities and Fund Balances	<u>\$ 8,269,697</u>	<u>\$ 16,274,959</u>	<u>\$ 24,544,656</u>

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL DEBT SERVICE AND CAPITAL PROJECTS FUNDS

YEAR ENDED JUNE 30, 2006

	Moreno Valley Redevelopment Project		TOTAL Capital Projects Funds
	Capital Projects		
	Project	Low and Moderate Housing	
Revenues:			
Taxes and Assessments:			
Tax increment	\$ 10,692,050	\$ 2,673,012	\$ 13,365,062
Sales and use tax	540,858	-	540,858
Use of Money and Property:			
Interest income	270,059	274,615	544,674
Other Revenue:			
Miscellaneous revenue	734,494	121,264	855,758
Total Revenues	12,237,461	3,068,891	15,306,352
Expenditures:			
Current:			
General Government:			
Administrative costs	321,620	751,261	1,072,881
Professional services	23,386	68,267	91,653
Public Safety:			
Subsidy to low and moderate housing	-	58,000	58,000
Community Development:			
Project improvement costs	15,296,979	271,471	15,568,450
Debt Service:			
Interest expense	1,900,411	-	1,900,411
Long-term debt repayments	1,368,429	-	1,368,429
Total Expenditures	18,910,825	1,148,999	20,059,824
Excess of Revenues over (under) Expenditures	(6,673,364)	1,919,892	(4,753,472)
Other Financing Sources (Uses)			
Proceeds from advances	13,776,495	-	13,776,495
Pass through agreement payments	(6,788,921)	-	(6,788,921)
Payment to Educational Revenue Augmentation Fund	(682,410)	-	(682,410)
Total Other Financing Sources (Uses)	6,305,164	-	6,305,164
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(368,200)	1,919,892	1,551,692
Fund Balances			
Beginning of Year	7,103,001	13,310,680	20,413,681
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(368,200)	1,919,892	1,551,692
End of Year	\$ 6,734,801	\$ 15,230,572	\$ 21,965,373

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS

	Low and Moderate Housing Funds - All Project Areas July 1, 2005	Low and Moderate Housing Funds - All Project Areas July 1, 2006
Opening Fund Balance	\$ 13,310,680	\$ 15,230,572
Less Unavailable Amounts:		
Encumbrances (Section 33334.12 (g)(2))	(4,139,839)	(4,775,939)
Rehabilitation loans	<u>(6,401,132)</u>	<u>(6,372,376)</u>
	<u>(10,540,971)</u>	<u>(11,148,315)</u>
Available Low and Moderate Income Housing Funds	2,769,709	4,082,257
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2005 - 2006	-	2,673,192
2004 - 2005	1,943,785	1,943,785
2003 - 2004	1,500,061	1,500,061
2002 - 2003	1,215,754	1,215,574
2001 - 2002	<u>1,078,099</u>	<u>-</u>
Total	<u>\$ 5,737,699</u>	<u>\$ 7,332,612</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>5,737,699</u>	<u>7,332,612</u>
Computed Excess/Surplus	<u>None</u>	<u>None</u>



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Board of Directors
Redevelopment Agency of the City of Moreno Valley
Moreno Valley, California

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

We have audited the financial statements of the Redevelopment Agency of the City of Moreno Valley ("Agency") as of and for the year ended June 30, 2006 and have issued our report thereon dated January 30, 2007. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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.

Board of Directors
Redevelopment Agency of the City of Moreno Valley
Page Two

This report is intended for the information of the Board of Directors, management of the Redevelopment Agency of the City of Moreno Valley, State Controller, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLann P.C.

Irvine, California
January 30, 2007

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APPENDIX I

FINANCIAL GUARANTY INSURANCE POLICY SPECIMEN

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Financial Guaranty Insurance Policy

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 related 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 of 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 theretofore 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.



President



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.



Authorized Officer of Insurance Trustee

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

