

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

Independent Accountants' Report on Applying Agreed-Upon Procedures
On the Avalon Community Improvement Agency's
And
The Successor Agency to the Avalon Community Improvement Agency's
Low and Moderate Income Housing Fund

Pursuant to California Health and Safety Code Section 34179.5

**SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY
AGREED-UPON PROCEDURES RELATED TO THE
LOW AND MODERATE INCOME HOUSING FUND**

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**Independent Accountants' Report on Applying Agreed-Upon Procedures
Related to the Low and Moderate Income Housing Fund**

Oversight Board of the Successor Agency
to the Avalon Community Improvement Agency
Avalon, California

We have performed the minimum required agreed-upon procedures (AUP) enumerated in Attachment A, which were agreed to by the California Department of Finance, the California State Controller's Office, the Los Angeles County Auditor-Controller, and the Successor Agency to the Avalon Community Improvement Agency (Successor Agency), (collectively, the Specified Parties), solely to assist you in meeting the statutory requirements of Health and Safety Code Section 34179.5 related to the Low and Moderate Income Housing Fund of the former Avalon Community Improvement Agency and the Successor Agency. Management of the Successor Agency is responsible for meeting the statutory requirements of Health and Safety Code Section 34179.5 related to the Low and Moderate Income Housing Fund. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the agreed-upon procedures as set forth in Attachment A. Attachment A also identifies the findings noted as a result of the procedures performed.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on whether the Successor Agency has met the statutory requirements of Health and Safety Code Section 34179.5 related to the Low and Moderate Income Housing Fund. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Oversight Board and management of the Successor Agency to the Avalon Community Improvement Agency, the California Department of Finance, the California State Controller's Office, and the Los Angeles County Auditor-Controller, and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Diehl Evans LLP

Irvine, California
November 14, 2012

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
RELATED TO THE LOW AND MODERATE INCOME HOUSING FUND

1. **Procedure:**

Obtain from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency's Low and Moderate Income Housing Fund to the Successor Agency on February 1, 2012. Agree the amounts on this listing to account balances established in the accounting records of the Successor Agency. Identify in the Agreed-Upon Procedures (AUP) report the amount of the assets transferred to the Successor Agency as of that date.

Finding:

We agreed the amounts listed on Schedule 1 to the Successor Agency's accounting records without exceptions. The former redevelopment agency transferred \$6,550,118 in assets to the Successor Agency as detailed in Schedule 1.

2A. **Procedure:**

Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Low and Moderate Income Housing Fund of the former redevelopment agency to the city that formed the redevelopment agency for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

Finding:

This procedure is not applicable as the former redevelopment agency did not make any transfers from the Low and Moderate Income Housing Fund to the City of Avalon other than payments for goods and services during the period from January 1, 2011 through January 31, 2012.

2B. **Procedure:**

Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Low and Moderate Income Housing Fund of the Successor Agency to the city that formed the redevelopment agency for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

Finding:

This procedure is not applicable as the Successor Agency did not make any transfers from the Low and Moderate Income Housing Fund to the City of Avalon other than payments for goods and services during the period from February 1, 2012 through June 30, 2012.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
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2C. **Procedure:**

For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required the transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

Finding:

This procedure is not applicable since no transfers were identified as a result of Procedures 2A and 2B.

3A. **Procedure:**

Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Low and Moderate Income Housing Fund of the former redevelopment agency to any other public agency or to private parties for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

Finding:

This procedure is not applicable as the former redevelopment agency did not make any transfers to other public agencies or private parties from the Low and Moderate Income Housing Fund other than payments for goods and services during the period from January 1, 2011 through January 31, 2012.

3B. **Procedure:**

Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Low and Moderate Income Housing Fund of the Successor Agency to any other public agency or to private parties for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and described in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
RELATED TO THE LOW AND MODERATE INCOME HOUSING FUND

3B. **Finding:**

The City of Avalon adopted Resolution No. 12-01 on January 30, 2012 whereby the City elected not to retain the housing assets and functions previously performed by the former Avalon Community Improvement Agency and transferred them to the Housing Authority of the City of Avalon as the Successor Housing Agency. After the adoption of Resolution No. 12-01, for accounting purposes, housing assets were transferred as detailed in Schedule 2 to the Housing Authority of the City of Avalon as the Successor Housing Agency in accordance with Health and Safety Code Section 34176(a)(2). Except for one property noted below, the transfer of these assets was reported on the Housing Asset List form filed on August 1, 2012 with the California Department of Finance (“DOF”). The DOF, in a letter dated August 30, 2012, indicated its approval of the housing assets transferred as detailed in Schedule 2.

We noted that a property located at 309 Beacon Street (historical cost \$862,511) was inadvertently excluded from the Housing Asset List. This capital asset was included in the subsidiary schedule that supported the general ledger balance for capital assets of the Avalon Community Improvement Agency. A copy of the title report for this property is attached as Exhibit 1.

3C. **Procedure:**

For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required the transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

Finding:

Schedule 2 shows the details for the enforceable obligation or other legal requirement supporting the transfers.

4. **Procedure:**

Obtain from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency for the fiscal periods ended June 30, 2010, June 30, 2011, January 31, 2012 and June 30, 2012. Ascertain that for each period presented, the total of revenues, expenditures and transfers account fully for the changes in equity from the previous fiscal period. Compare amounts for the fiscal period ended June 30, 2010 to the state controller’s report filed for the Redevelopment Agency for that period. Compare the amounts for the other fiscal periods presented to the account balances in the accounting records or other supporting schedules.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
RELATED TO THE LOW AND MODERATE INCOME HOUSING FUND

4. **Finding:**

This procedure is required by Section 34179.5(c)(4) for the Successor Agency as a whole and therefore will be addressed in the AUP report associated with all other funds of the Successor Agency due December 15, 2012.

5. **Procedure:**

Obtain from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund (excluding assets held by the entity that assumed the housing function previously performed by the former redevelopment agency) as of June 30, 2012. Agree the assets on the listing to the accounting records of the Successor Agency.

Finding:

As of June 30, 2012, the Successor Agency's total assets related to the former redevelopment agency's Low and Moderate Income Housing Fund amounted to \$6,146,451 as shown in Schedule 3.

6. **Procedure:**

Obtain from the Successor Agency a listing of asset balances related to the former redevelopment agency's Low and Moderate Income Housing Fund on June 30, 2012 that were restricted for the following purposes:

- unspent bond proceeds,
- grant proceeds and program income restricted by third parties, and
- other assets with legal restrictions.

6A. **Procedure - Unspent Bond Proceeds:**

Obtain the Successor Agency's computation of the restricted balances and trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation. Obtain the legal document that sets forth the restriction pertaining to these balances.

Finding:

As of June 30, 2012, the Successor Agency had \$ 4,349,924 in unspent bond proceeds as detailed in Schedule 4. Excerpts from the Official Statement of the 2003 Taxable Housing Tax Allocation Bonds, Series B setting forth the restrictions pertaining to the unspent bond proceeds are attached as Exhibit 2.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
RELATED TO THE LOW AND MODERATE INCOME HOUSING FUND

6B. Procedure - Grant Proceeds and Program Income Restricted by Third Parties:

Obtain the Successor Agency's computation of the restricted balances and trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation. Obtain a copy of the grant agreement that sets forth the restriction pertaining to these balances.

Finding:

This procedure is not applicable as the Successor Agency's assets related to the former redevelopment agency's Low and Moderate Income Housing Fund did not have grant proceeds and program income restricted by third parties as of June 30, 2012.

6C. Procedure - Other Assets Considered to be Legally Restricted:

Obtain the Successor Agency's computation of the restricted balances and trace individual components of this computation to related account balances in the accounting records or other supporting documentation. We obtained the legal document that sets forth the restriction pertaining to these balances.

Finding:

This procedure is not applicable as the Successor Agency's assets related to the former redevelopment agency's Low and Moderate Income Housing Fund did not have other assets considered to be legally restricted as of June 30, 2012.

7. Procedure:

Obtain from the Successor Agency a listing of assets of the former redevelopment agency's Low and Moderate Income Housing Fund as of June 30, 2012 that are not liquid or otherwise available for distribution and ascertain if the values are listed at either purchase cost or market value as recently estimated by the Successor Agency. For assets listed at purchased cost, trace the amount to a previously audited financial statement or other accounting records of the Successor Agency and note any differences. For any differences noted, inspect evidence of asset disposal subsequent to January 31, 2012 and ascertain that the proceeds were deposited into the Successor Agency's trust fund. For assets listed at recently estimated market value, inspect evidence supporting the value and note the methodology used.

Finding:

This procedure is not applicable as the former redevelopment agency's Low and Moderate Income Housing Fund did not have any assets that were not liquid or otherwise available for distribution as of June 30, 2012.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
RELATED TO THE LOW AND MODERATE INCOME HOUSING FUND

8A. Procedure:

If the Successor Agency identified that existing asset balances were needed to be retained to satisfy enforceable obligations, obtain an itemized schedule of asset balances (resources) as of June 30, 2012 that were dedicated or restricted for the funding of enforceable obligations. Compare the information on the schedule to the legal documents that formed the basis for the dedication or restriction of the resource balance in question. Compare all current balances which needed to be retained to satisfy enforceable obligations to the amounts reported in the accounting records of the Successor Agency or to an alternative computation. Compare the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule (ROPS) approved by the California Department of Finance. If applicable, identify any listed balances for which the Successor Agency was unable to provide appropriate restricting language in the legal document associated with the enforceable obligation.

Finding:

This procedure is not applicable as Successor Agency did not identify any existing asset balances needed to be retained to fund enforceable obligations.

8B. Procedure:

If the Successor Agency identified that future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, obtain from the Successor Agency a schedule of approved enforceable obligations that include a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements. Compare the enforceable obligations to those that were approved by the California Department of Finance for the six month period from January 1, 2012 through June 30, 2012 and for the six month period July 1, 2012 through December 31, 2012. Compare the forecasted annual spending requirements to the legal document supporting the enforceable obligation and obtain the Successor Agency's assumptions relating to the forecasted annual spending requirements. Obtain the Successor Agency's assumptions for the forecasted annual revenues. Disclose the major assumptions for the forecasted annual spending requirements and the forecasted annual revenues in this AUP report.

Finding:

This procedure is not applicable as the Successor Agency did not identify any existing asset balances needed to be retained to fund future obligation payments.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
RELATED TO THE LOW AND MODERATE INCOME HOUSING FUND

8C. **Procedure:**

If the Successor Agency identified that projected property tax revenues and other general purpose revenues to be received by the Successor Agency are insufficient to pay bond debt service payments (considering both the timing and amount of the related cash flows), obtain a schedule demonstrating this insufficiency. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement. Obtain the assumptions for the forecasted property tax revenues and other general purpose revenues and disclose them in this AUP report.

Finding:

This procedure is not applicable as the Successor Agency did not identify any existing asset balances needed to be retained to fund bond debt service payments.

8D. **Procedure:**

If Procedures 8A, 8B and 8C were performed, calculate the amount of unrestricted balances necessary for retention in order to meet enforceable obligations. Combine the amount identified as currently restricted balances and the forecasted annual revenues to arrive at the amount of total resources available to fund enforceable obligations. Reduce the total resources available by the amount of forecasted annual spending requirements. Include the calculation in this AUP report.

Finding:

This procedure is not applicable since no retention of unrestricted balances has been identified in Procedures 8A, 8B or 8C.

9. **Procedure:**

If the Successor Agency identified that cash balances as of June 30, 2012 need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, obtain a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013. For each obligation listed on the ROPS, the Successor Agency should identify (a) any dollar amount of existing cash that was needed to satisfy the obligation, and (b) the Successor Agency's explanation as to why the Successor Agency believes that such balances were needed to satisfy the obligation. Include this schedule as an attachment to this AUP report.

Finding:

This procedure is not applicable as the Successor Agency did not identify any cash balances to be retained to satisfy obligations on the ROPS for the period July 1, 2012 through June 30, 2013.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY

ATTACHMENT A - AGREED-UPON PROCEDURES AND FINDINGS
RELATED TO THE LOW AND MODERATE INCOME HOUSING FUND

10. **Procedure:**

Present a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Agencies. Amounts included in the calculation should agree to the results of the procedures performed above. Agree any deductions for amounts already paid to the County Auditor-Controller on July 12, 2012 as directed by the California Department of Finance to evidence of payment.

Finding:

The schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Agencies is shown in Schedule 5. The computation indicates that the Successor Agency has \$1,796,527 available for allocation to affected taxing agencies.

11. **Procedure:**

Obtain a representation letter from management of the Successor Agency acknowledging their responsibility for the data provided and the data presented in the report or in any schedules or exhibits to the report. Included in the representations is an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in this AUP report and its related schedules or exhibits. Management's refusal to sign the representation letter should be noted in the AUP report as required by attestation standards.

Finding:

No exceptions were noted as a result of this Procedure.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY
 AGREED-UPON PROCEDURES RELATED TO THE
 LOW AND MODERATE INCOME HOUSING FUND

LISTING OF ASSETS TRANSFERRED TO SUCCESSOR AGENCY

As of February 1, 2012

ASSETS	Total as of <u>February 1, 2012</u>
Cash and investments	\$ 2,201,600
Cash and investments with fiscal agent	<u>4,348,518</u>
	<u>\$ 6,550,118</u>

NOTE:

(A) For accounting purposes, the following assets recorded in the Low and Moderate Income Housing Fund at January 31, 2012 were transferred to the Housing Authority of the City of Avalon (Housing Successor) on February 1, 2012 pursuant to Health and Safety Code Section 34176(a)(2).

Notes receivable	\$ 215,000
SERAF loans	1,000,000
Real property	4,551,426 (1)
Restrictive covenants on low-mod housing	<u>- (2)</u>
	<u>\$ 5,766,426</u>

- (1) This housing-related real property was recorded in the Community Improvement Agency's capital asset fund.
- (2) The restrictive covenants on low-mod housing were not assigned any value, and, therefore, not recorded in the Low and Moderate Income Housing Fund of the Community Improvement Agency.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY
 AGREED-UPON PROCEDURES RELATED TO THE
 LOW AND MODERATE INCOME HOUSING FUND

TRANSFERS TO THE HOUSING AUTHORITY OF THE CITY OF AVALON

FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012:

Date of Transfer	Description of Transfer	Purpose of Transfer	Amount	Enforceable Obligation/Other Legal Requirement Supporting Transfer
2/1/2012	Transfer of Notes Receivable	Transfer Housing Assets to the Housing Authority of the City of Avalon as Successor Housing Agency	<u>\$ 215,000</u>	Health and Safety Code Section 34176(a)(2) Assets transferred and reported on Housing Asset List filed with the Department of Finance
2/1/2012	Transfer of SERAF Loan Receivable	Transfer Housing Assets to the Housing Authority of the City of Avalon as Successor Housing Agency	<u>\$ 1,000,000</u>	Health and Safety Code Section 34176(a)(2) Assets transferred and reported on Housing Asset List filed with the Department of Finance
2/1/2012	Transfer of Real Property	Transfer Housing Assets to the Housing Authority of the City of Avalon as Successor Housing Agency	<u>\$ 4,551,426</u>	Health and Safety Code Section 34176(a)(2) Assets transferred and reported on Housing Asset List filed with the Department of Finance (1)
2/1/2012	Transfer of Restrictive Covenants on Low-Mod Housing	Transfer Housing Assets to the Housing Authority of the City of Avalon as Successor Housing Agency	<u>\$ -</u>	Health and Safety Code Section 34176(a)(2) Assets transferred and reported on Housing Asset List filed with the Department of Finance

(1) One property included in this amount, costing \$862,511, was inadvertently excluded from the Housing Asset List filed with the Department of Finance.

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY
 AGREED-UPON PROCEDURES RELATED TO THE
 LOW AND MODERATE INCOME HOUSING FUND

LISTING OF ASSETS OF THE SUCCESSOR AGENCY

As of June 30, 2012

	ASSETS	
Cash and investments		\$ 1,793,635
Cash and investments with fiscal agent		4,349,924
Interest receivable		<u>2,892</u>
		<u>\$ 6,146,451</u>

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY
 AGREED-UPON PROCEDURES RELATED TO THE
 LOW AND MODERATE INCOME HOUSING FUND

UNSPENT BOND PROCEEDS

June 30, 2012

	Amounts
Par Amount of 2003 Taxable Housing Tax Allocation Bonds, Series B	\$ 7,430,000
Less: Net Original Issue Discount	-
Less: Underwriter's Discount	(36,018)
Bond Proceeds	<u>\$ 7,393,982</u>
 2003 Series B Bond Proceeds per Transcript	 \$ 7,393,982
Less: Cost of Issuance	(260,000)
Less: Transfer to Refunding Escrow Bank	(3,502,843)
Net Project Funds	<u>\$ 3,631,139</u>
 Deposit to Project Fund	 \$ 3,631,139
Interest earnings	718,785
Project costs drawdowns	-
Total unspent bond proceeds for 2003 Series B Bonds	<u>\$ 4,349,924</u>

SUCCESSOR AGENCY TO THE AVALON COMMUNITY IMPROVEMENT AGENCY
 AGREED-UPON PROCEDURES RELATED TO THE
 LOW AND MODERATE INCOME HOUSING FUND

SUMMARY OF BALANCE AVAILABLE FOR ALLOCATION TO AFFECTED TAXING AGENCIES

As of June 30, 2012

Total amount of assets held by the Successor Agency as of June 30, 2012 - (Procedure 5)	\$ 6,146,451
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments - (Procedure 6)	(4,349,924)
Less assets that are not cash or cash equivalents (e.g., physical assets) - (Procedure 7)	-
Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations) - (Procedure 8)	-
Less balances needed to satisfy ROPS for the 2012-13 fiscal year - (Procedure 9)	-
Less the amount of payments made on July 12, 2012 to the County Auditor-Controller as directed by the California Department of Finance	-
Add the amount of any assets transferred to the City for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist - (Procedures 2 and 3)	-
Amount to be remitted to County for disbursement to affected taxing agencies	<u>\$ 1,796,527</u>

EXHIBIT 1

TITLE REPORT FOR 309 BEACON STREET

65059.00401

Title Rpt

309 Beacon St., Avalon, CA

APNs:

7480-031-900 (Parcel 1)

7480-031-901 (Parcel 2)

AVALON, CITY OF
RDA SUCCESSOR AGENCY/REDEVELOPMENT - HOUSING

2.1 Title Reports: Preliminary Report, 309 Beacon St, Avalon, CA APNs:

7480-031-900, -901

Dated: -



+F204516

65059-00401

309 Beacon Street, Avalon, CA
APNs: Parcel 1: 7480-031-900 Parcel 2: 7480-031-901
65059.00401

Tab	Description
	Preliminary Report
1.	A Legal Tract Map 37_03
2.	A Legal Book 1 Page 31 Official Map
3.	A Legal Book 34 Page 67 MR
4.	A Legal Assessors Map 7480-31
5.	A Vesting Deed 07-17-1996 01151107 (Individual Grant Deed 07/17/1996)
6.	B 02 Book 6371 Page 52 Deeds ((Indenture 10/11/1916))
7.	B 03,04,06 CCR Notice
8.	B 03 Book 25 Page 91 (Indenture 01/19/1921)
9.	B 04 Book 15464 Page 64 (Grant Deed 10/13/1927)
10.	B 05 12-15-1999 02305897 (Memorandum of Lease 12/15/1999)
11.	B 06 07-31-2002 01785291 (CC&Rs 07/31/2002)
12.	B 07 09-05-2002 02082397 (Regulatory Agreement 09/05/2002)



Lawyers Title Company
888 S. Figueroa Street
Suite 2100
Los Angeles, CA 90017
Phone: (213) 330-3100

Best Best & Krieger
300 S. Grand Ave. #2500
Los Angeles, CA 90071

Attn: **Shelby Young**

Your Reference No: Avalon

Property Address: 309 Beacon Street, Avalon, California

Our File No: 09512754
Title Officer: Diane Greer
e-mail: dgreer@ltic.com
Phone: (213) 330-2330
Fax: (213) 330-3105

PRELIMINARY REPORT

Dated as of July 25, 2012 at 7:30 a.m.

In response to the application for a policy of title insurance referenced herein, **Lawyers Title Company** hereby reports that it is prepared to issue, or cause to be issued, as of the date hereof, a policy or policies of title insurance describing the land and the estate or interest therein hereinafter set forth, insuring against loss which may be sustained by reason of any defect, lien or encumbrance not shown or referred to as an exception herein or not excluded from coverage pursuant to the printed Schedules, Conditions and Stipulations or Conditions of said policy forms.

The printed Exceptions and Exclusions from the coverage and Limitations on Covered Risks of said policy or policies are set forth in Attachment One. The policy to be issued may contain an arbitration clause. When the Amount of Insurance is less than that set forth in the arbitration clause, all arbitrable matters shall be arbitrated at the option of either the Company or the Insured as the exclusive remedy of the parties. Limitation on Covered Risks applicable to the CLTA and ALTA Homeowner's Policies of Title Insurance which establish a Deductible Amount and a Maximum Dollar Limit of Liability for certain coverages are also set forth in Attachment One. Copies of the policy forms should be read. They are available from the office which issued this report.

The policy(s) of title insurance to be issued hereunder will be policy(s) of **Commonwealth Land Title Insurance Company**.

Please read the exceptions shown or referred to below and the exceptions and exclusions set forth in Attachment One of this report carefully. The exceptions and exclusions are meant to provide you with notice of matters which are not covered under the terms of the title insurance policy and should be carefully considered. It is important to note that this preliminary report is not a written representation as to the condition of title and may not list all liens, defects, and encumbrances affecting title to the land.

This report (and any supplements or amendments hereto) is issued solely for the purpose of facilitating the issuance of a policy of title insurance and no liability is assumed hereby. If it is desired that liability be assumed prior to the issuance of a policy of title insurance, a Binder or Commitment should be requested.

SCHEDULE A

The form of policy of title insurance contemplated by this report is:

ALTA Extended Loan Policy (6-17-06)

The estate or interest in the land hereinafter described or referred to covered by this report is:

A FEE

Title to said estate or interest at the date hereof is vested in:

Avalon Community Improvement Agency, a public agency, a dissolved public body, subject to Section 34173 of the California Health and Safety Code, subject to Item No. 11 of Schedule B, Section B.

The land referred to herein is situated in the County of Los Angeles, State of California, and is described as follows:

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

EXHIBIT "A"

All that certain real property situated in the County of Los Angeles, State of California, described as follows:

Parcel 1:

Lot 39 of Block "I" of Tract No. 3368, in the City of Avalon, County of Los Angeles, State of California, as per map recorded in Book 37, Pages 3 to 7 inclusive of Maps, in the Office of the County Recorder of said County.

Also that portion of Beacon Street, vacated, adjoining said lot on the Northeast.

Said Lot 39 is shown as Lot 55 in Block 22 of the Official Maps, in the City of Avalon, as per map recorded in Book 1, Pages 31 through 46 inclusive of Official Maps, in the Office of the County Recorder of said County, and is so assessed.

Parcel 2:

Lot 4 in Block 15 of the Town of Avalon, in the City of Avalon, County of Los Angeles, State of California, as per map recorded in Book 34, Page 67 of Miscellaneous Records, in the Office of the County Recorder of said County.

Also that portion of Beach Street, vacated, adjoining said lot on the Northeast..

Said Lot 4 is shown as Lot 56 in Block 22 of the Official Maps, in the City of Avalon, as per map recorded in Book 1, Pages 31 through 46 inclusive of Official Maps, in the Office of the County Recorder of said County, and is so assessed.

Assessor's Parcel Number: 7480-031-900 and 7480-031-901

SCHEDULE B – Section A

The following exceptions will appear in policies when providing standard coverage as outlined below:

1. (a) Taxes or assessments that are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the Public Records; (b) proceedings by a public agency that may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the Public Records.
2. Any facts, rights, interests or claims that are not shown by the Public Records but that could be ascertained by an inspection of the Land or that may be asserted by persons in possession of the Land.
3. Easements, liens or encumbrances, or claims thereof, not shown by the Public Records.
4. Any encroachment, encumbrance, violation, variation or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land and not shown by the Public Records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the Public Records.
6. Any lien or right to a lien for services, labor or material not shown by the Public Records.

SCHEDULE B – Section B

At the date hereof Exceptions to coverage in addition to the printed exceptions and exclusions in said policy form would be as follows:

- A. Property taxes, including general and special taxes, personal property taxes, if any, and any assessments collected with taxes, to be levied for the fiscal year 2012 – 2013 which are a lien not yet payable.
- B. No taxes are due or payable at this time. Said Property is currently owned by a Governmental Agency.

Said matter affects Assessor's Parcel No.: 7480-031-900 and 7480-031-901

- C. Supplemental or escaped assessments of property taxes, if any, assessed pursuant to the Revenue and Taxation Code of the State of California.

- 1. Water rights, claims or title to water, whether or not shown by the public records.
- 2. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Purpose:	Pipe lines
Recorded:	In Book 6371, Page 52, of Deeds
Affects:	Said land

The exact location and/or extent of said easement is not disclosed in the public records.

- 3. Covenants, conditions and restrictions as set forth in the document
- Recorded: In Book 25, Page 91, Official Records

This exception omits any covenant, condition or restriction based on race, color, religion, sex, handicap, familial status or national origin, unless and only to the extent that the covenant, condition or restriction (a) is not in violation of state or federal law, (b) is exempt under 42 U.S.C. Section 3607 or (c) relates to a handicap but does not discriminate against handicapped people.

- 4. Covenants, conditions and restrictions as set forth in the document
- Recorded: In Book 15464, Page 64, Official Records

This exception omits any covenant, condition or restriction based on race, color, religion, sex, handicap, familial status or national origin, unless and only to the extent that the covenant, condition or restriction (a) is not in violation of state or federal law, (b) is exempt under 42 U.S.C. Section 3607 or (c) relates to a handicap but does not discriminate against handicapped people.

Said covenants, conditions and restrictions provide that a violation thereof shall not defeat the lien of any mortgage or deed of trust made in good faith and for value.

5. An unrecorded lease with certain terms, covenants, conditions and provisions set forth therein.

Lessor: Avalon Community Improvement Agency, a California
Redevelopment Agency
Lessee: Catalina Avalon Limited, a California Limited Partnership
Disclosed by: Memorandum of Lease
Recorded: December 15, 1999, as Instrument No. 99-2305897, Official
Records

The present ownership of the leasehold created by said lease and other matters affecting the interest of the lessee are not shown herein.

Affects the herein-described land and other land.

6. Covenants, conditions and restrictions as set forth in the document
Recorded: July 31, 2002, as Instrument No. 02-1785291, Official Records

This exception omits any covenant, condition or restriction based on race, color, religion, sex, handicap, familial status or national origin, unless and only to the extent that the covenant, condition or restriction (a) is not in violation of state or federal law, (b) is exempt under 42 U.S.C. Section 3607 or (c) relates to a handicap but does not discriminate against handicapped people.

Affects the herein-described land and other land.

7. The matters contained in a document entitled "Regulatory Agreement" recorded September 5, 2002, as Instrument No. 02-2082397, of Official Records.

Reference is made to said document for full particulars.

Affects the herein-described land and other land.

8. Title search discloses no open deeds of trust. Please confirm prior to close of escrow.
9. Any rights, interests or claims of parties in possession of the land not shown by the public records.
10. Any rights, interests or claims of the parties in possession of said land, including but not limited to those based on an unrecorded agreement, contract or lease.

11. Any claim that the transaction vesting the Title as shown in Schedule A or creating the lien of the Insured Mortgage, or any other transaction occurring on or prior to the Date of Policy in which all or any part of the title to or any interest in the Land was transferred to or from Avalon Community Improvement Agency, a public agency, is or was void or voidable under California Assembly Bill 26 (Chapter 5, Statutes of 2011-12, First Extraordinary Session).

12. Approval of the policy or commitment of title insurance anticipated by this report by Regional Counsel of the Company is required prior to the recordation of the instruments required to complete this transaction and the issuance of such policy or commitment. The right is reserved to make additional exceptions and/or requirements upon such review.

END OF SCHEDULE B EXCEPTIONS

**PLEASE REFER TO THE "NOTES AND REQUIREMENTS SECTION" WHICH
FOLLOWS FOR INFORMATION NECESSARY TO COMPLETE THIS TRANSACTION**

REQUIREMENTS SECTION:

REQ NO.1: The Company will require a certified copy of the Resolution of the Board of Directors of the following corporation authorizing the transaction for which this Preliminary Report was ordered.

Corporation:

**Avalon Community Improvement Agency, a
public agency**

INFORMATIONAL NOTES SECTION

NOTE NO. 1: The information on the attached plat is provided for your convenience as a guide to the general location of the subject property. The accuracy of this plat is not guaranteed, nor is it a part of any policy, report or guarantee to which it may be attached.

NOTE NO. 2: California insurance code section 12413.1 regulates the disbursement of escrow and sub-escrow funds by title companies. The law requires that funds be deposited in the title company escrow account and available for withdrawal prior to disbursement. Funds deposited with the company by wire transfer may be disbursed upon receipt. Funds deposited with the company via cashier's check or teller's check drawn on a California based bank may be disbursed on the next business day after the day of deposit. If funds are deposited with the company by other methods, recording and/or disbursement may be delayed. All escrow and sub-escrow funds received by the company will be deposited with other escrow funds in one or more non-interest bearing escrow accounts of the company in a financial institution selected by the company. The company may receive certain direct or indirect benefits from the financial institution by reason of the deposit of such funds or the maintenance of such accounts with such financial institution, and the company shall have no obligation to account to the depositing party in any manner for the value of, or to pay to such party, any benefit received by the company. Those benefits may include, without limitation, credits allowed by such financial institution on loans to the company or its parent company and earnings on investments made with the proceeds of such loans, accounting, reporting and other services and products of such financial institution. Such benefits shall be deemed additional compensation of the company for its services in connection with the escrow or sub-escrow.

WIRING INSTRUCTIONS FOR THIS OFFICE ARE:

Wells Fargo Bank, NA
420 Montgomery St
San Francisco, CA 94104
ABA# 121000248
Credit to: Lawyers Title Company
Account #4122109614

RE: 09512754-DG5-905

PLEASE INDICATE COMMONWEALTH LAND TITLE COMPANY ESCROW OR TITLE ORDER NUMBER

NOTE NO. 3: Lawyers Title is a division of Commonwealth Land Title Insurance Company. The insurer in policies of title insurance, when issued in this transaction, will be Commonwealth Land Title Insurance Company.

NOTE NO. 4. None of the items shown in this report will cause the Company to decline to attach CLTA Endorsement Form 100 to an ALTA Loan Policy, when issued.

NOTE NO. 5. The following information will be included in the CLTA Form 116 or ALTA Form 22-06 Endorsement to be issued pursuant to this order:

There is located on said land: multiple family residence
Known as: 309 Beacon Street, in the City of Avalon, County of Los Angeles, State of California

NOTE NO. 6. There are no conveyances affecting said land recorded within 24 months of the date of this report.

File No: 09512754

NOTE NO. 7. THIS COMPANY REQUIRES CURRENT BENEFICIARY DEMANDS PRIOR TO CLOSING. If the demand is expired and a current demand cannot be obtained, our requirements will be as follows:

- (a) If this Company accepts a verbal update on the demand, we may hold an amount equal to one monthly mortgage payment. This hold will be in addition to the verbal hold the lender may have stipulated.
- (b) If this Company cannot obtain a verbal update on the demand, we will either pay off the expired demand, or wait for the amended demand, at our discretion.
- (c) All payoff figures are verified at closing. If the customer's last payment was made within 15 days of closing, our Payoff Department may hold one month's payment to insure check has cleared the bank (unless a copy of the cancelled check is provided, in which case there will be no hold).

Typist: 2sm

Date Typed: August 3, 2012

ATTACHMENT ONE
CALIFORNIA LAND TITLE ASSOCIATION
STANDARD COVERAGE POLICY – 1990
EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance or governmental regulation (including but not limited to building or zoning laws, ordinances, or regulations) restricting, regulating, prohibiting or relating (i) the occupancy, use, or enjoyment of the land; (ii) the character, dimensions or location of any improvement now or hereafter erected on the land; (iii) a separation in ownership or a change in the dimensions or area of the land or any parcel of which the land is or was a part; or (iv) environmental protection, or the effect of any violation of these laws, ordinances or governmental regulations, except to the extent that a notice of the enforcement thereof or a notice of a defect, lien, or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
- (b) Any governmental police power not excluded by (a) above, except to the extent that a notice of the exercise thereof or notice of a defect, lien or encumbrance resulting from a violation or alleged violation affecting the land has been recorded in the public records at Date of Policy.
2. Rights of eminent domain unless notice of the exercise thereof has been recorded in the public records at Date of Policy, but not excluding from coverage any taking which has occurred prior to Date of Policy which would be binding on the rights of a purchaser for value without knowledge.
3. Defects, liens, encumbrances, adverse claims or other matters:
 - (a) whether or not recorded in the public records at Date of Policy, but created, suffered, assumed or agreed to by the insured claimant;
 - (b) not known to the Company, not recorded in the public records at Date of Policy, but known to the insured claimant and not disclosed in writing to the Company by the insured claimant prior to the date the insured claimant became an insured under this policy;
 - (c) resulting in no loss or damage to the insured claimant;
 - (d) attaching or created subsequent to Date of Policy; or
 - (e) resulting in loss or damage which would not have been sustained if the insured claimant had paid value for the insured mortgage or for the estate or interest insured by this policy.
4. Unenforceability of the lien of the insured mortgage because of the inability or failure of the insured at Date of Policy, or the inability or failure of any subsequent owner of the indebtedness, to comply with the applicable doing business laws of the state in which the land is situated.
5. Invalidity or unenforceability of the lien of the insured mortgage, or claim thereof, which arises out of the transaction evidenced by the insured mortgage and is based upon usury or any consumer credit protection or truth in lending law.
6. Any claim, which arises out of the transaction vesting in the insured the estate of interest insured by this policy or the transaction creating the interest of the insured lender, by reason of the operation of federal bankruptcy, state insolvency or similar creditors' rights laws.

EXCEPTIONS FROM COVERAGE - SCHEDULE B, PART I

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) which arise by reason of:

1. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.
Proceedings by a public agency which may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the public records.
2. Any facts, rights, interests, or claims which are not shown by the public records but which could be ascertained by an inspection of the land or which may be asserted by persons in possession thereof.
3. Easements, liens or encumbrances, or claims thereof, not shown by the public records.
4. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by the public records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.
6. Any lien or right to a lien for services, labor or material not shown by the public records.

**CLTA HOMEOWNER'S POLICY OF TITLE INSURANCE (02-03-10)
ALTA HOMEOWNER'S POLICY OF TITLE INSURANCE**

EXCLUSIONS

- In addition to the Exceptions in Schedule B, You are not insured against loss, costs, attorneys' fees, and expenses resulting from:
1. Governmental police power, and the existence or violation of those portions of any law or government regulation concerning:
 - a. building;
 - b. zoning;
 - c. land use;
 - d. improvements on the Land;
 - e. land division; and
 - f. environmental protection.

This Exclusion does not limit the coverage described in Covered Risk 8.a., 14, 15, 16, 18, 19, 20, 23 or 27.
 2. The failure of Your existing structures, or any part of them, to be constructed in accordance with applicable building codes. This Exclusion does not limit the coverage described in Covered Risk 14 or 15.
 3. The right to take the Land by condemning it. This Exclusion does not limit the coverage described in Covered Risk 17.
 4. Risks:
 - a. that are created, allowed, or agreed to by You, whether or not they are recorded in the Public Records;
 - b. that are Known to You at the Policy Date, but not to Us, unless they are recorded in the Public Records at the Policy Date;
 - c. that result in no loss to You; or
 - d. that first occur after the Policy Date - this does not limit the coverage described in Covered Risk 7, 8.e., 25, 26, 27 or 28.
 5. Failure to pay value for Your Title.
 6. Lack of a right:
 - a. to any land outside the area specifically described and referred to in paragraph 3 of Schedule A; and
 - b. in streets, alleys, or waterways that touch the Land.

This Exclusion does not limit the coverage described in Covered Risk 11 or 21.
 7. The transfer of the Title to You is invalid as a preferential transfer or as a fraudulent transfer or conveyance under federal bankruptcy, state insolvency, or similar creditors' rights laws.

LIMITATIONS ON COVERED RISKS

Your insurance for the following Covered Risks is limited on the Owner's Coverage Statement as follows:

- For Covered Risk 16, 18, 19, and 21 Your Deductible Amount and Our Maximum Dollar Limit of Liability shown in Schedule A.

The deductible amounts and maximum dollar limits shown on Schedule A are as follows:

	<u>Your Deductible Amount</u>	<u>Our Maximum Dollar Limit of Liability</u>
Covered Risk 16:	1.00% of Policy Amount Shown in Schedule A or <u>\$2,500.00</u> (whichever is less)	\$ <u>10,000.00</u>
Covered Risk 18:	1.00% of Policy Amount Shown in Schedule A or <u>\$5,000.00</u> (whichever is less)	\$ <u>25,000.00</u>
Covered Risk 19:	1.00% of Policy Amount Shown in Schedule A or <u>\$5,000.00</u> (whichever is less)	\$ <u>25,000.00</u>
Covered Risk 21:	1.00% of Policy Amount Shown in Schedule A or <u>\$2,500.00</u> (whichever is less)	\$ <u>5,000.00</u>

**AMERICAN LAND TITLE ASSOCIATION
RESIDENTIAL TITLE INSURANCE POLICY (6-1-87)**

EXCLUSIONS

In addition to the Exceptions in Schedule B, you are not insured against loss, costs, attorneys' fees, and expenses resulting from:

1. Governmental police power, and the existence or violation of any law or government regulation. This includes building and zoning ordinances and also laws and regulations concerning:
 - land use
 - improvements on the land
 - land division
 - environmental protection

This exclusion does not apply to violations or the enforcement of these matters which appear in the public records at Policy Date.

This exclusion does not limit the zoning coverage described in Items 12 and 13 of Covered Title Risks.

2. The right to take the land by condemning it, unless:
 - a notice of exercising the right appears in the public records
 - on the Policy Date
 - the taking happened prior to the Policy Date and is binding on you if you bought the land without knowing of the taking
3. Title Risks:
 - that are created, allowed, or agreed to by you
 - that are known to you, but not to us, on the Policy Date – unless they appeared in the public records
 - that result in no loss to you
 - that first affect your title after the Policy Date – this does not limit the labor and material lien coverage in Item 8 of Covered Title Risks
4. Failure to pay value for your title.
5. Lack of a right:
 - to any land outside the area specifically described and referred to in Item 3 of Schedule A

OR

- in streets, alleys, or waterways that touch your land

This exclusion does not limit the access coverage in Item 5 of Covered Title Risks.

**2006 ALTA LOAN POLICY (06-17-06)
EXCLUSIONS FROM COVERAGE**

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
 - (i) the occupancy, use, or enjoyment of the Land;
 - (ii) the character, dimensions, or location of any improvement erected on the Land;
 - (iii) the subdivision of land; or
 - (iv) environmental protection;or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.
2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
3. Defects, liens, encumbrances, adverse claims, or other matters
 - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
 - (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
 - (c) resulting in no loss or damage to the Insured Claimant;
 - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risk 11, 13 or 14); or
 - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Insured Mortgage.
4. Unenforceability of the lien of the Insured Mortgage because of the inability or failure of an Insured to comply with applicable doing-business laws of the state where the Land is situated.
5. Invalidity or unenforceability in whole or in part of the lien of the Insured Mortgage that arises out of the transaction evidenced by the Insured Mortgage and is based upon usury or any consumer credit protection or truth-in-lending law.
6. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction creating the lien of the Insured Mortgage, is
 - (a) a fraudulent conveyance or fraudulent transfer, or
 - (b) a preferential transfer for any reason not stated in Covered Risk 13(b) of this policy.
7. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the Insured Mortgage in the Public Records. This Exclusion does not modify or limit the coverage provided under Covered Risk 11(b).

The above policy form may be issued to afford either Standard Coverage or Extended Coverage. In addition to the above Exclusions from Coverage, the Exceptions from Coverage in a Standard Coverage policy will also include the following Exceptions from Coverage:

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) that arise by reason of:

1. (a) Taxes or assessments that are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the Public Records; (b) proceedings by a public agency that may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the Public Records.
2. Any facts, rights, interests, or claims that are not shown by the Public Records but that could be ascertained by an inspection of the Land or that may be asserted by persons in possession of the Land.
3. Easements, liens or encumbrances, or claims thereof, not shown by the Public Records.
4. Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land and not shown by the Public Records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b), or (c) are shown by the Public Records.
6. Any lien or right to a lien for services, labor or material not shown by the public records.

**2006 ALTA OWNER'S POLICY (06-17-06)
EXCLUSIONS FROM COVERAGE**

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
 - (i) the occupancy, use, or enjoyment of the Land;
 - (ii) the character, dimensions, or location of any improvement erected on the Land;
 - (iii) the subdivision of land; or
 - (iv) environmental protection;
 or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(n) does not modify or limit the coverage provided under Covered Risk 5.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.
2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
3. Defects, liens, encumbrances, adverse claims, or other matters
 - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
 - (b) not known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
 - (c) resulting in no loss or damage to the Insured Claimant;
 - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risk 9 and 10); or
 - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Title.
4. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction vesting the Title as shown in Schedule A, is
 - (a) a fraudulent conveyance or fraudulent transfer; or
 - (b) a preferential transfer for any reason not stated in Covered Risk 9 of this policy.
5. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A.

The above policy form may be issued to afford either Standard Coverage or Extended Coverage. In addition to the above Exclusions from Coverage, the Exceptions from Coverage in a Standard Coverage policy will also include the following Exceptions from Coverage:

EXCEPTIONS FROM COVERAGE

This policy does not insure against loss or damage (and the Company will not pay costs, attorneys' fees or expenses) that arise by reason of:

1. (a) Taxes or assessments that are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the Public Records; (b) proceedings by a public agency that may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the Public Records.
2. Any facts, rights, interests, or claims that are not shown in the Public Records but that could be ascertained by an inspection of the Land or that may be asserted by persons in possession of the Land.
3. Easements, liens or encumbrances, or claims thereof, not shown by the Public Records.
4. Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land and that are not shown by the Public Records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b), or (c) are shown by the Public Records.
6. Any lien or right to a lien for services, labor or material not shown by the public records.

**ALTA EXPANDED COVERAGE RESIDENTIAL LOAN POLICY (07-26-10)
EXCLUSIONS FROM COVERAGE**

The following matters are expressly excluded from the coverage of this policy and the Company will not pay loss or damage, costs, attorneys' fees or expenses which arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
 - (i) the occupancy, use, or enjoyment of the Land;
 - (ii) the character, dimensions, or location of any improvement erected on the Land;

- (iii) the subdivision of land; or
 - (iv) environmental protection;
- or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5, 6, 13(c), 13(d), 14 or 16.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 5, 6, 13(c), 13(d), 14 or 16.
2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
 3. Defects, liens, encumbrances, adverse claims, or other matters
 - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
 - (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
 - (c) resulting in no loss or damage to the Insured Claimant;
 - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risk 11, 16, 17, 18, 19, 20, 21, 22, 23, 24, 27 or 28); or
 - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Insured Mortgage.
 4. Unenforceability of the lien of the Insured Mortgage because of the inability or failure of an Insured to comply with applicable doing-business laws of the state where the Land is situated.
 5. Invalidity or unenforceability in whole or in part of the lien of the Insured Mortgage that arises out of the transaction evidenced by the Insured Mortgage and is based upon usury, or any consumer credit protection or truth-in-lending law. This Exclusion does not modify or limit the coverage provided in Covered Risk 26.
 6. Any claim of invalidity, unenforceability or lack of priority of the lien of the Insured Mortgage as to Advances or modifications made after the Insured has Knowledge that the vestee shown in Schedule A is no longer the owner of the estate or interest covered by this policy. This Exclusion does not modify or limit the coverage provided in Covered Risk 11.
 7. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching subsequent to Date of Policy. This Exclusion does not modify or limit the coverage provided in Covered Risk 11(b) or 25.
 8. The failure of the residential structure, or any portion of it, to have been constructed before, on or after Date of Policy in accordance with applicable building codes. This Exclusion does not modify or limit the coverage provided in Covered Risk 5 or 6.
 9. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction creating the lien of the Insured Mortgage, is
 - (a) a fraudulent conveyance or fraudulent transfer, or
 - (b) a preferential transfer for any reason not stated in Covered Risk 27(b) of this policy.

Notice of Available Discounts

Pursuant to Section 2355.3 in Title 10 of the California Code of Regulations Fidelity National Financial, Inc. and its subsidiaries ("FNF") must deliver a notice of each discount available under our current rate filing along with the delivery of escrow instructions, a preliminary report or commitment. Please be aware that the provision of this notice does not constitute a waiver of the consumer's right to be charged the filed rate. As such, your transaction may not qualify for the below discounts.

You are encouraged to discuss the applicability of one or more of the below discounts with a Company representative. These discounts are generally described below; consult the rate manual for a full description of the terms, conditions and requirements for such discount. These discounts only apply to transactions involving services rendered by the FNF Family of Companies. This notice only applies to transactions involving property improved with a one-to-four family residential dwelling.

FNF	Underwritten	Title	FNF Underwriter
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Company	
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LTC – Lawyers Title Company	CLTIC – Commonwealth Land Title Insurance Co.
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Available Discounts

DISASTER LOANS (CLTIC)

The charge for a Lender's Policy (Standard or Extended coverage) covering the financing or refinancing by an owner of record, within 24 months of the date of a declaration of a disaster area by the government of the United States or the State of California on any land located in said area, which was partially or totally destroyed in the disaster, will be 50% of the appropriate title insurance rate.

EMPLOYEE RATE (LTC and CLTIC)

No charge shall be made to employees (including employees on approved retirement) of the Company or its underwritten, subsidiary or affiliated title companies for policies or escrow services in connection with financing, refinancing, sale or purchase of the employees' bona fide home property. Waiver of such charges is authorized only in connection with those costs which the employee would be obligated to pay, by established custom, as a party to the transaction.

EXHIBIT 2

**BOND DOCUMENT EXCERPTS - 2003 TAXABLE
HOUSING TAX ALLOCATION BONDS, SERIES B**

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS

Standard & Poor's: AAA

Moody's: Aaa

(See "CONCLUDING INFORMATION – Ratings on the Bonds" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series A Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. However, Bond Counsel expresses no opinion whether interest on the Series B Bonds is excluded from gross income for federal income tax purposes, and it is not intended by the Agency that said interest be exempt from federal income taxation. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. See "LEGAL MATTERS – Tax Matters" herein.

LOS ANGELES COUNTY

STATE OF CALIFORNIA

**AVALON COMMUNITY IMPROVEMENT AGENCY
AVALON COMMUNITY IMPROVEMENT PROJECT**

\$27,350,000 2003 TAX ALLOCATION BONDS, SERIES A

\$7,430,000 2003 TAXABLE HOUSING TAX ALLOCATION BONDS, SERIES B

Dated: Date of Delivery

**Due: September 1, as Shown
on the Inside Front Cover Page.**

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "BONDHOLDERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

Interest on the Bonds is payable on March 1, 2004, and semiannually thereafter on September 1 and March 1 of each year until maturity or earlier redemption (see "THE BONDS - General Provisions" and "THE BONDS – Redemption" herein).

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. See "SOURCES OF PAYMENT FOR THE BONDS – Municipal Bond Insurance" herein.



The Series A Bonds are payable solely from Tax Revenues of the Avalon Community Improvement Agency (the "Agency") as described herein and certain other funds held under the Series A Indenture, as defined herein. The Series B Bonds are payable solely from Housing Tax Revenues of the Agency as described herein and certain other funds held under the Series B Indenture, as defined herein (see "SOURCES OF PAYMENT FOR THE BONDS," "BONDHOLDERS' RISKS" and "DEBT STRUCTURE" herein). The Bonds are being issued for sale to the Avalon Public Financing Authority, which is concurrently selling the Bonds to the Underwriter. It is anticipated that the Bonds will be available for delivery in New York, New York, on or about December 17, 2003 for deposit with The Depository Trust Company (see "APPENDIX H – BOOK-ENTRY ONLY SYSTEM" herein).

The Bonds are being offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the Agency by Pamela Albers, as Agency Counsel and by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel.

The date of the Official Statement is December 3, 2003.

UBS Financial Services Inc.

OFFICIAL STATEMENT

AVALON COMMUNITY IMPROVEMENT AGENCY AVALON COMMUNITY IMPROVEMENT PROJECT \$27,350,000 2003 TAX ALLOCATION BONDS, SERIES A \$7,430,000 2003 TAXABLE HOUSING TAX ALLOCATION BONDS, SERIES B

This Official Statement which includes the cover page and appendices (the "Official Statement") is provided to furnish certain information concerning the sale of the Avalon Community Improvement Agency's Avalon Community Improvement Project 2003 Tax Allocation Bonds, Series A (the "Series A Bonds") and 2003 Taxable Housing Tax Allocation Bonds, Series B (the "Series B Bonds and together with the Series A Bonds, the Bonds"), in the aggregate principal amount of \$27,350,000 and \$7,430,000 respectively.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see "BONDHOLDERS' RISKS" herein).

The Agency

The Avalon Community Improvement Agency (the "Agency") is a public body, corporate and politic, existing under and by virtue of the Community Redevelopment Law of the State, constituting Part 1 of Division 24 (commencing with Section 33000) of the Health and Safety Code of the State (the "Redevelopment Law"). The Agency was activated by the City Council of the City of Avalon in 1984. The City Council, at the same time, declared itself to be the members of the Agency and appointed the City Manager to be the Agency's Executive Director (see "THE AGENCY" herein).

The City of Avalon

The City of Avalon (the "City") was incorporated as a general law city in 1914 and operates under the Council/City Manager form of government. The City encompasses two and two-thirds square miles and is located on Santa Catalina Island, 22 miles southwest from Los Angeles Harbor. The City is a resort community with a permanent population of 3,300 residents (see "APPENDIX C - CITY OF AVALON INFORMATION STATEMENT" herein).

Security and Sources of Repayment

The Bonds. The Series A Bonds are issued and secured under an Indenture of Trust (the "Series A Indenture"), dated as of December 1, 2003, by and between the Agency and U.S. Bank National Association, as trustee (the "Trustee"). The Series B Bonds are issued and secured under an Indenture of Trust, also dated as of December 1, 2003, by and between the Agency and the Trustee (the "Series B Indenture" and together with the Series A Indenture, the "Indentures"), (see "APPENDIX A - SUMMARY OF THE INDENTURES" herein).

The Bonds are payable solely from a portion of the tax increment revenues allocated to the Agency pursuant to Section 33670 of the Redevelopment Law ("Tax Increment Revenues"), as described below, and further, from amounts on deposit in the reserve accounts created under the Indentures. The Trustee will exercise such rights and remedies as may be necessary to enforce the payments when due by the Agency and otherwise to protect the interests of the Bondholders in the event of default by the Agency.

The Series A Bonds. The Agency has pledged Tax Revenues, as defined herein, to the repayment of the Series A Bonds. Tax Revenues consist of Tax Increment Revenues of the Agency's Community Improvement Project Area excluding (i) amounts required to be deposited into the Agency's Low and Moderate Income Housing Fund, (ii) amounts payable by the State to the Agency pursuant to section 16110 et. seq. of the Government Code, and (iii) amounts required to be paid pursuant to the Tax Sharing Agreement, as defined herein or pursuant to Section 33607.5 or 33607.7 of the Redevelopment Law, except and to the extent that any amount so payable are payable on a basis subordinate to the Bonds.

The Series B Bonds. The Agency has pledged Housing Tax Revenues, as defined herein, to the repayment of the Series B Bonds. Housing Tax Revenues consist of that portion of Tax Increment Revenues of the Agency's Community Improvement Project Area required to be deposited into the Agency's Low and Moderate Income Housing Fund (see "THE AGENCY - Low and Moderate Income Housing," "DEBT STRUCTURE - Outstanding Indebtedness of the Redevelopment Project," "FINANCIAL INFORMATION - Tax Increment Revenues" and "Tax Sharing Statutes" and "BONDHOLDERS' RISKS" herein).

The Project Area. The Community Improvement Project Area (the "Redevelopment Project") was created on May 15, 1984 and encompasses approximately one square mile. See "THE REDEVELOPMENT PROJECT" herein.

The Bonds are limited obligations of the Agency. The Bonds do not constitute a debt or liability of the City of Avalon, the State of California, or of any political subdivision thereof, other than the Agency. The Agency shall only be obligated to pay the principal of the Bonds, or the interest thereon, from the funds described herein, and neither the faith and credit nor the taxing power of the City of Avalon, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Bonds. The Agency has no taxing power.

Purpose

The Series A Bonds are being issued to refinance certain outstanding obligations of the Agency, to finance additional redevelopment activities of the Agency, to fund a reserve fund for the Series A Bonds and to pay the expenses of the Agency in connection with the issuance of the Series A Bonds. The Series B Bonds are being issued to refinance certain outstanding obligations of the Agency, to finance additional low- and moderate-income housing activities of the Agency, to fund a reserve fund for the Series B Bonds and to pay the expenses of the Agency in connection with the issuance of the Series B Bonds (see "FINANCING PLAN - Estimated Sources and Use of Funds" herein).

The Bonds

Redemption. The Series A Bonds maturing September 1, 2029 and September 1, 2034 (the "Series A Term Bonds") are subject to mandatory redemption, without premium, prior to their maturity date, in part by lot on September 1, in each year commencing September 1, 2024 with respect to the Series A Term Bonds maturing September 1, 2029 and commencing September 1, 2030 with respect to the Series A Term Bonds maturing September 1, 2034 from mandatory Sinking Account payments under the Series A Indenture. The Series B Bonds are subject to mandatory redemption, without premium, prior to their maturity date, in part by lot on September 1, in each year commencing September 1, 2004 with respect to the Series B Bonds maturing September 1, 2013, commencing September 1, 2014 with respect to the

FINANCING PLAN

Estimated Sources and Use of Funds

Under the provisions of the Indentures, the Trustee will receive the proceeds from the sale of the Bonds and other funds and will apply them as shown below.

Sources of Funds

	<u>Series A</u>	<u>Series B</u>
Par Amount of Bonds	\$27,350,000.00	\$7,430,000.00
Original Issue Discount	(127,407.25)	0.00
Funds held by trustee for the 1991 Bonds	104,282.54	0.00
Funds held by trustee for the 1998 Bonds	0.14	0.00
 Total Available Funds	 \$27,326,875.43	 \$7,430,000.00

Use of Funds

Transfer to Escrow Bank	\$15,826,785.01	\$3,502,843.16
Deposit to Redevelopment Fund	10,653,682.65	0.00
Deposit to Housing Fund	0.00	3,631,138.70
Underwriter's Discount	76,089.02	36,018.14
Costs of Issuance Fund ⁽¹⁾	770,318.75	260,000.00
 Total Use of Funds	 \$27,326,875.43	 \$7,430,000.00

⁽¹⁾ Expenses include fees of Bond Counsel, the Financial Advisor, the Disclosure Counsel, Trustee, Placement Agent fees, costs of printing the Official Statement, bond insurance and surety premium, and other costs of issuance of the Bonds.

Transfers to Escrow Bank. Pursuant to an indenture of trust dated as of June 1, 1991 (the "1991 Indenture"), the Agency issued its Community Improvement Project Area Tax Allocation Bonds, Series 1991 A (the "1991 Bonds") in the aggregate principal amount of \$11,500,000 of which \$1,050,000 is currently outstanding. In addition, pursuant to an indenture of trust dated as of March 1, 1998 (the "1998 Indenture"), the Avalon Public Financing Authority (the "Authority") issued its Variable Rate Demand Tax Allocation Bonds, Series 1998 (the "1998 Bonds") in the aggregate principal amount of \$21,225,000 of which \$18,230,000 is currently outstanding. The Authority loaned the proceeds of the 1998 Bonds to the Agency pursuant to a loan agreement dated as of March 1, 1998 (the "1998 Loan Agreement"). Collectively, the 1991 Indenture and the 1998 Indenture are referred to as the "Prior Indentures" and the 1991 Bonds and the 1998 Bonds are referred to as the "Prior Bonds." Pursuant to the Prior Indentures and the 1998 Loan Agreement, the Agency pledged certain "tax revenues" (as defined in the Prior Indentures and consisting generally of tax increment revenues of the Redevelopment Project excluding amounts required to be paid pursuant to a tax sharing agreement but including that portion of the tax increment revenues required to be deposited in the Agency's Low and Moderate Income Housing Fund) to the repayment of the Prior Bonds. On the Delivery Date, a portion of the proceeds of the Bonds, together with certain other funds, will be deposited in trust with U.S. Bank National Association, as escrow holder (the "Escrow Bank") pursuant to the Indentures and two separate escrow deposit and trust agreements relating to each series of the Prior Bonds, each dated as of December 1, 2003, between the Agency and the Escrow Bank (the "Escrow Agreements").

The deposits will be in an amount sufficient to pay principal and interest on the Prior Bonds through and including their respective redemption dates and to pay the redemption price with respect to the separate series of the Prior Bonds remaining outstanding on their respective redemption dates. The lien of the Prior Bonds created by the Prior Indentures and the 1998 Loan Agreement, including, without limitation, the pledge of the tax revenues to repay the Prior Bonds and the 1998 Loan Agreement, will be discharged, terminated and of no further force and effect upon the deposits with the Escrow Bank of the amounts required pursuant to the Escrow Agreements (see "CONCLUDING INFORMATION - Verifications of Mathematical Computations" herein).

Use of Proceeds Deposited to the Redevelopment Fund. The Agency expects to use the proceeds of the Series A Bonds deposited in the Redevelopment Fund to complete seismic upgrades at the hospital, structural repairs to the Mole Ferry Terminal, road and drainage projects, improved fire flow projects and flood control projects. The Agency reserves the right to fund redevelopment activities consisting of public improvements or grants other than those described.

Use of Proceeds Deposited to the Housing Fund. The Agency expects to use the proceeds of the Series B Bonds deposited in the Housing Fund to acquire property for future development with low- and moderate-income housing, to make loans to developers of low- and moderate-income housing projects and to fund a first-time homebuyer loan program. The Agency reserves the right to fund housing activities other than those described.

SOURCES OF PAYMENT FOR THE BONDS

Pledge of Tax Revenues and Housing Tax Revenues

The Tax Revenues and the Housing Tax Revenues are pledged to the payment of principal of and interest on the Series A Bonds and Series B Bonds, respectively, until the Series A Bonds and any Parity Debt or the Series B Bonds and any Parity Debt, as applicable, have been paid, or until moneys have been set-aside irrevocably for that purpose. The Trustee will covenant to exercise such rights and remedies as may be necessary to enforce the payment of the Tax Revenues and Housing Tax Revenues when due under the respective Indentures and otherwise to protect the interests of the Bondholders in the event of default by the Agency.

The Bonds are limited obligations of the Agency. The Bonds do not constitute a debt or liability of the City of Avalon, the State of California or of any political subdivision thereof, other than the Agency. The Agency shall only be obligated to pay the principal of the Bonds, or the interest thereon, from the funds described herein, and neither the faith and credit nor the taxing power of the City of Avalon, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Bonds. The Agency has no taxing power.

The Agency has irrevocably granted a pledge of, lien on, and security interest in the Tax Revenues for the repayment of the Series A Bonds and any Parity Debt. Tax Revenues consist of tax increment revenues allocated to the Agency with respect to the Redevelopment Project pursuant to Section 33670 of the Redevelopment Law ("Tax Increment Revenues"), excluding (i) amounts required to be deposited into the Agency's Low and Moderate Income Housing Fund, (ii) amounts payable by the State to the Agency pursuant to section 16110 et. seq. of the Government code, and (iii) amounts required to be paid pursuant to the Tax Sharing Agreement, as defined herein, and pursuant to Section 33607.5 or 33607.7 of the Redevelopment Law, except and to the extent that any amount so payable are payable on a basis subordinate to the Bonds. The Agency has irrevocably granted a pledge of, lien on, and security interest in the Housing Tax Revenues for the repayment of the Series B Bonds and any Parity Debt. Housing Tax Revenues consist of that portion of Tax Increment Revenues required to be deposited into the Agency's Low and Moderate Income Housing Fund (see "DEBT STRUCTURE - Outstanding Indebtedness of the Redevelopment Project," "THE AGENCY - Low and Moderate Income Housing," "FINANCIAL INFORMATION - Tax Increment Revenues" and "Tax Sharing Statutes," and "BONDHOLDERS' RISKS" herein).

Reserve Account

Separate Reserve Accounts for the Series A Bonds and the Series B Bonds have been established under each Series A Indenture and Series B Indenture to be held by the Trustee to further secure the timely payment of principal and interest on the respective Series A Bonds and Series B Bonds. The amount required to be maintained in the Reserve Accounts for the Series A Bonds and Series B Bonds is an aggregate amount equal to Maximum Annual Debt Service on the Series A Bonds or the Series B Bonds, as applicable (the "Reserve Requirement"). The Indentures provide that in lieu of a cash deposit, the Agency may satisfy all or a portion of a Reserve Requirement by means of a Qualified Reserve Account Credit Instrument (see "APPENDIX A - SUMMARY OF THE INDENTURES" herein).

Concurrent with the issuance of the Bonds, MBIA Insurance Corporation (the "Insurer") will issue its surety bonds (each, a "Reserve Account Surety Bond"), which provide that upon notice from the Trustee to the Insurer to the effect that insufficient amounts are on deposit in the Special Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Series A Bonds or Series B Bonds, as applicable, or the available amount of the applicable Reserve Account Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Reserve Account Surety Bond, duly executed by the

Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Reserve Account Surety Bonds is the initial face amount of \$1,726,921.26 with respect to the Series A Bonds and \$522,995.00 with respect to the Series B Bonds, less the amount of any previous deposits by the Insurer with the Trustee which have not been reimbursed by the Agency. The Agency and the Insurer will enter into a Financial Guaranty Agreement dated as of the Closing Date (the "Agreement"). Pursuant to the Agreement, the Agency is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Trustee under each Reserve Account Surety Bond. Such reimbursement shall be made only after all required deposits to the applicable Special Fund to pay debt service on the applicable series of Bonds and all Parity Bonds have been made.

Municipal Bond Insurance

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to "APPENDIX G" for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for