

PRELIMINARY OFFICIAL STATEMENT DATED ___, 2011

Ratings: Standard & Poor's: “__”

Fitch: “__”

(See “OTHER MATTERS — Ratings”)

New Issue—Book Entry Only

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2011 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 2011 Bonds is exempt from State of California personal income taxes. 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. See “OTHER MATTERS — Tax Matters” herein.

\$41,050,000*

**REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA
Earthquake Recovery Redevelopment Project
2011 Tax Allocation Bonds**

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The Redevelopment Agency of the City of Santa Monica (the “Agency”) is issuing the bonds captioned above (the “2011 Bonds”) pursuant to a Second Supplement to Indenture of Trust dated as of May 1, 2011, supplementing an Indenture of Trust and First Supplement to Indenture of Trust, respectively, each dated as of April 1, 2006, and each by and between the Agency and Union Bank of California, N.A., as trustee (collectively, the “Indenture”). See “THE 2011 BONDS — Authority for Issuance”

Proceeds of the 2011 Bonds will be used to (i) fund certain costs of the Agency’s Santa Monica Earthquake Recovery Redevelopment Project (the “Project Area”), (ii) provide for a debt service reserve for the 2011 Bonds, and (iii) pay the costs of issuing the 2011 Bonds. See “PLAN OF FINANCE.”

The 2011 Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers (“Beneficial Owners”), under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of certificates representing their ownership interest in the 2011 Bonds. The principal of, premium if any, and semiannual interest on the 2011 Bonds will be payable by the Trustee to DTC for subsequent disbursement to DTC Participants, so long as DTC or its nominee remains the registered owner of the 2011 Bonds. See APPENDIX F — “Book Entry-Only System.”

Interest on the 2011 Bonds is due January 1 and July 1 of each year, commencing July 1, 2011. The 2011 Bonds will be issued in denominations of \$5,000 or any integral multiple of \$5,000. See “THE 2011 BONDS — Description.”

The 2011 Bonds are subject to redemption prior to maturity as described herein. See “THE 2011 BONDS — Redemption.”

The 2011 Bonds are secured by and payable from “Tax Revenues” from the Agency’s Earthquake Recovery Redevelopment Project Area (the “Project Area”) and amounts on deposit in certain funds and accounts established pursuant to the Indenture on a parity the Agency’s 2006A Bonds and 2006B Bonds currently outstanding in the respective principal amounts of \$49,945,000 and \$4,005,000. Tax Revenues generally consist of tax increment revenues to be derived from the Agency’s Project Area, less unsubordinated pass-through obligations and certain amounts treated as Housing Set-Aside, except to the limited extent described herein. See “SECURITY FOR THE 2011 BONDS.” The receipt of Tax Revenues is subject to certain risks and limitations. See “RISK FACTORS” and “LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS.”

The Indenture authorizes the Agency to incur additional debt secured by Tax Revenues on a parity with the 2006A Bonds, the 2006B Bonds and the 2011 Bonds. See “SECURITY FOR THE 2011 BONDS — Parity Debt.”

THE 2011 BONDS ARE NOT A DEBT OF THE CITY OF SANTA MONICA (THE “CITY”), THE STATE OF CALIFORNIA, OR ANY OF THEIR POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY, AND NEITHER THE CITY, THE STATE NOR ANY OF THEIR POLITICAL SUBDIVISIONS, OTHER THAN THE AGENCY, IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE 2011 BONDS ARE PAYABLE SOLELY FROM TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. NEITHER THE OFFICERS OF THE AGENCY OR THE CITY, NOR ANY PERSONS EXECUTING THE 2011 BONDS, ARE LIABLE PERSONALLY ON THE 2011 BONDS BY REASON OF THEIR ISSUANCE.

An investment in the 2011 Bonds involves risk. Potential investors in the Bonds should review the entire Official Statement to evaluate an investment in the Bonds. See “RISK FACTORS” for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2011 Bonds.

MATURITY SCHEDULE
(See inside front cover)

The 2011 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth is also serving as Disclosure Counsel for the Agency. Certain legal matters will be passed on for the Agency by Kane, Ballmer & Berkman, Los Angeles, California, and for the Underwriters by Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the 2011 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about June __, 2011.

Dated: June __, 2011

De La Rosa & Co.

Wells Fargo Securities

* Preliminary, subject to change.

\$41,050,000*
REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA
Earthquake Recovery Redevelopment Project
2011 Tax Allocation Bonds

MATURITY SCHEDULE
(Base CUSIP: † _____)

\$ _____ % Term Bonds due July 1, 20__, Yield _____ % CUSIP† No. _____
\$ _____ % Term Bonds due July 1, 20__, Yield _____ % CUSIP† No. _____
\$ _____ % Term Bonds due July 1, 20__, Yield _____ % CUSIP† No. _____

* Preliminary, subject to change.

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REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA

AGENCY/CITY COUNCIL MEMBERS

Richard Bloom, *Agency Chair, Mayor*
Gleam Davis, *Agency Vice Chair, Mayor Pro-Tempore*
Robert Holbrook, *Agency Member, Council Member*
Kevin McKeown, *Agency Member, Council Member*
Pam O'Connor, *Agency Member, Council Member*
Terry O'Day, *Agency Member, Council Member*
Bobby Shriver, *Agency Member, Council Member*

ADMINISTRATIVE OFFICIALS

Rod Gould, *Agency Executive Director/City Manager*
Carol Swindell, *Agency Treasurer/Director of Finance*
Andy Agle, *Director of Housing and Economic Development*
Marsha Jones Moutrie, *Agency General Counsel/City Attorney*

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Los Angeles, California

Financial Advisor

Public Resources Advisory Group
Los Angeles, California

Bond Counsel and Disclosure Counsel

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

Fiscal Consultant

HdL Coren & Cone
Diamond Bar, California

Trustee

Union Bank of California, N.A.
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the Agency to give any information or to make any representations with respect to the 2011 Bonds other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been given or authorized by the Agency or the Underwriters.

This Official Statement is submitted in connection with the sale of the 2011 Bonds described herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement does not constitute a contract between any Bond owner and the Agency or the Underwriters.

The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2011 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Agency, the other parties described in this Official Statement, since the date of this Official Statement.

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

When used in this Official Statement and in any continuing disclosure made by the Agency, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

All summaries of the Indenture or other documents contained in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. All references in this Official Statement to the Indenture and such other documents are qualified in their entirety by reference to such documents, which are on file with the Agency.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The issuance and sale of the 2011 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The Underwriters may offer and sell the 2011 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and the Underwriters may change those public offering prices from time to time.

The Agency and the City maintain a website. However, the information presented therein is not a part of this Official Statement and must not be relied upon in making an investment decision with respect to the Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR AFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Insert Map

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	Governor’s Proposal to Eliminate	
PLAN OF FINANCE.....	3	Redevelopment.....	31
Plan of Finance	3	Seismic Factors.....	37
Estimated Sources and Uses of Funds	3	Hazardous Substances	38
THE 2011 BONDS	3	Investment Funds	38
Authority for Issuance	3	Bankruptcy and Foreclosure.....	38
Description.....	4	Changes in the Law	38
Redemption.....	4	Bonds Are Limited Obligations.....	38
Transfer and Exchange	6	Limited Recourse on Default.....	39
Debt Service Schedule	7	Secondary Market.....	39
SECURITY FOR THE 2011 BONDS.....	7	Loss of Tax Exemption	39
Tax Allocation Financing	7	LIMITATIONS ON TAX REVENUES AND	
Tax Revenues.....	8	POSSIBLE SPENDING LIMITATIONS	39
Pledge of Tax Revenues	9	Property Tax Limitations - Article XIII A.....	39
Reserve Account.....	9	Challenges to Article XIII A	40
Parity Debt.....	10	Implementing Legislation.....	40
THE AGENCY	11	Property Tax Collection Procedures.....	40
Agency Existence and Personnel.....	11	Unitary Property	41
Agency Powers and Duties	11	Appropriations Limitations - Article XIII B.....	42
Agency Financial Statements.....	12	Statement of Indebtedness.....	42
Outstanding Agency Debt.....	12	Proposition 218.....	43
THE EARTHQUAKE RECOVERY		Future Initiatives.....	43
REDEVELOPMENT PROJECT	15	OTHER MATTERS	43
General.....	15	Litigation	43
Land Use.....	15	Ratings.....	44
Redevelopment Plan Limitations.....	16	Tax Matters	44
Major Taxable Property Owners.....	17	Continuing Disclosure.....	45
Recent Transfers	17	Underwriting	46
Statutory Pass-Through Requirements	17	Financial Statements.....	46
Tax Sharing Agreements.....	18	Financial Advisor	46
Low and Moderate Income Housing.....	19	Professionals Involved in the Offering	46
TAX REVENUES	19	EXECUTION	46
Historical Assessed Value and Tax		APPENDIX A – Summary of Certain	
Revenues.....	19	Provisions of the Indenture	
Appeals of Assessed Values	21	APPENDIX B – Santa Monica General	
Projected Tax Revenues.....	22	Information	
Estimated Debt Service Coverage	25	APPENDIX C – Audited Financial Statements	
RISK FACTORS	27	of the Agency for Fiscal Year	
Reduction in Taxable Value and Tax		Ended June 30, 2010	
Revenues.....	28	APPENDIX D – Form of Bond Counsel	
Concentration of Tax Base.....	28	Opinion	
Estimates of Tax Revenues.....	28	APPENDIX E – Form of Continuing	
Reduction in Inflationary Rate.....	28	Disclosure Certificate	
Levy and Collection.....	29	APPENDIX F – Book Entry-Only System	
Risks Associated With Parity Debt.....	29	APPENDIX G – Fiscal Consultant Report	
Bankruptcy Risks.....	29		
State Budget and SERAF.....	29		

\$41,050,000*
REDEVELOPMENT AGENCY OF THE CITY OF SANTA MONICA
Earthquake Recovery Redevelopment Project
2011 Tax Allocation Bonds

INTRODUCTION

This Official Statement, including the cover page, inside cover page, and appendices, is provided to furnish information in connection with the sale by the Redevelopment Agency of the City of Santa Monica (the “Agency”) of the bonds captioned above (the “2011 Bonds”). This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in APPENDIX A — “Summary of Certain Provisions of the Indenture.”

The City

The City of Santa Monica, California (the “City”), is located in the western portion of Los Angeles County (the “County”), bordered by the City of Los Angeles on three sides and by the Pacific Ocean to the west. The City encompasses an area slightly greater than eight square miles and has an estimated population of 92,703 persons as of January 1, 2010. The City was incorporated as a general law city in 1886 and became a charter city in 1945. For certain information regarding the City, see APPENDIX B — “Santa Monica General Information.”

The Agency

The Agency is a redevelopment agency existing under the Community Redevelopment Law of the State of California (the “State”), constituting Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code, as amended (the “Redevelopment Law”). The Agency was activated on August 13, 1957 by an ordinance of the City Council, at which time the City Council declared itself to be the governing board of the Agency. See “THE AGENCY.”

The Project Area

The Santa Monica Earthquake Recovery Redevelopment Project (the “Project Area”) encompasses approximately 2.89 square miles or 34.8% of the City’s total land area. The Project Area is almost entirely developed, with use (based on fiscal year 2010-11 assessed value inclusive of unsecured values) primarily characterized as commercial (48.47%), residential (39.61%) and industrial (2.64%).

The Project Area was formed after the 1994 Northridge Earthquake to assist in the maintenance, repair, restoration, demolition or replacement of property in the City as a result of the earthquake pursuant to the Redevelopment Law, as then constituted, the Community Redevelopment Financial Assistance and Disaster Project Law, as then constituted (Health & Safety Code Sections 34000 *et seq.*, the “Disaster Project Law”), the California Constitution, and all applicable local codes and ordinances.

See “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT” for additional information on land use and property ownership within the Project Area.

* Preliminary, subject to change.

Authority for Issuance

The 2011 Bonds are being issued under the Redevelopment Law and pursuant to an Indenture of Trust as supplemented by a First Supplement to Indenture of Trust, each dated as of April 1, 2006, and a Second Supplement to Indenture of Trust dated as of May 1, 2011 (collectively, the “Indenture”), each by and between the Agency and Union Bank of California, N.A., Los Angeles, California, as trustee (the “Trustee”).

See “THE 2011 BONDS — Authority for Issuance.”

Financing Purpose

Proceeds of the 2011 Bonds will be used for the following purposes: (i) to pay Agency costs of redevelopment activities in or of benefit to the Agency’s Earthquake Recovery Redevelopment Project; (ii) to provide for a debt service reserve for the 2011 Bonds; and (iii) to pay the costs of issuing the 2011 Bonds. See “PLAN OF FINANCE.”

Pledge of Tax Revenues

The 2011 Bonds are payable from and secured by Tax Revenues (as defined below), generally consisting of a portion of the tax increment eligible for allocation to the Agency pursuant to the Redevelopment Law from the Project Area. The pledge of Tax Revenues securing the 2011 Bonds is on a parity with the pledge of Tax Revenues securing the 2006 Bonds (defined below).

Tax increment that the Agency is obligated to deposit into its Low and Moderate Income Housing Fund (the “Housing Set-Aside”) is included in the definition of Tax Revenues for the purpose of paying up to 20% of the debt service on the 2006 Bonds (see “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT — Low and Moderate Income Housing”) and a portion of the debt service on any Parity Debt to the extent proceeds of such parity Debt are applied for eligible Housing Set-Aside purposes. Tax Revenues does not include amounts that the Agency is obligated to pay to other taxing agencies pursuant to statutory pass-through obligations established by the Redevelopment Law. See “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT — Statutory Pass Through Requirements”.

Outstanding Parity Debt

The 2011 Bonds are issued on a parity with the Agency’s Earthquake Recovery Redevelopment Project, 2006 Tax Allocation Refunding Bonds, Series A (the “2006A Bonds”) originally issued in the principal amount of \$49,945,000 and the Agency’s Earthquake Redevelopment Project, 2006 Taxable Tax Allocation Refunding Bonds, Series B (the “2006B Bonds” and collectively with the 2006A Bonds, the “2006 Bonds”) originally issued in the aggregate principal amount of \$14,775,000. The 2006 Series A Bonds are currently outstanding in the principal amount of \$49,945,000 and the 2006 Series B Bonds are currently outstanding in the principal amount of \$4,005,000.

Additional Parity Debt

The Indenture permits the Agency to issue additional bonds payable from Tax Revenues on a parity basis to the 2006 Bonds and the 2011 Bonds. See “SECURITY FOR THE 2011 BONDS — Parity Debt.” The 2006 Bonds, the 2011 Bonds and future “Parity Debt” (defined below) issued under the terms of the Indenture are collectively referred to in this Official Statement as the “Bonds.”

Possible Risk Factors

Any future decrease in the taxable valuation in the Project Area or in the applicable tax rates could reduce the Tax Revenues allocated to the Agency and correspondingly could have an adverse impact on the

ability of the Agency to pay debt service on the 2011 Bonds. Currently pending legislation would eliminate redevelopment agencies and alter the mechanism by which tax revenues would be made available to pay debt service on the 2011 Bonds. See “RISK FACTORS.”

PLAN OF FINANCE

The 2011 Bonds are being issued primarily to pay the cost of redevelopment activities of the Agency in or of benefit to the Project Area. Proceeds of the 2011 Bonds will also be used to provide for a debt service reserve account for the 2011 Bonds and pay the costs of issuing the 2011 Bonds.

Plan of Finance

Proceeds from the sale of the 2011 Bonds will be used by the Agency to finance redevelopment activities within or benefiting the Project Area, including but not limited to a payment to the City to satisfy a portion of the Agency’s obligations pursuant to the Master Cooperation Agreement dated as of September 1, 2010 by and between the Agency and the City. See “THE AGENCY—Outstanding Agency Debt—City Obligation” herein. The Agency (or the City pursuant to the Master Cooperation Agreement) plans on applying 2011 Bond proceeds to fund the following:

[Describe use of proceeds for Projects]

Estimated Sources and Uses of Funds

The anticipated sources and uses of funds relating to the 2011 Bonds are as follows:

SOURCES OF FUNDS

Principal Amount	\$
<i>Plus/Less: Net Premium/(Discount)</i>	
<i>Less: Underwriters’ Discount</i>	
Total Sources of Funds	<u><u>\$</u></u>

USES OF FUNDS

Costs of Issuance Fund ⁽¹⁾	\$
Redevelopment Fund ⁽²⁾	
2011 Reserve Account	
Total Uses of Funds	<u><u>\$</u></u>

⁽¹⁾ Represents the costs of issuing the 2011 Bonds, Trustee fees, Bond Counsel and Disclosure Counsel fees and expenses, Agency Counsel fees, Financial Advisor fees and expenses, fiscal consultant fees and expenses, printing costs, rating agency fees and other related costs.

⁽²⁾ To be transferred to the Agency for deposit in the Redevelopment Fund.

THE 2011 BONDS

Authority for Issuance

The 2011 Bonds are being issued pursuant to the Redevelopment Law, the Indenture, a resolution of the Agency adopted on May 24, 2011, and a resolution of the City adopted on May 24, 2011. The 2011 Bonds will initially be sold to Santa Monica Public Financing Authority, which will immediately sell the 2011 Bonds to the Underwriters.

Description

The 2011 Bonds will be dated their date of delivery (the “Closing Date”), will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple of \$5,000, and will mature in the amounts and on the dates as set forth on the inside cover of this Official Statement.

Interest on the 2011 Bonds will be payable semiannually on January 1 and July 1 of each year (each, an “Interest Payment Date”), commencing July 1, 2011.

Interest due on the 2011 Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months at the respective rates per annum, as set forth on the inside cover page of this Official Statement. Interest on the 2011 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a 2011 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it shall bear interest from such Interest Payment Date, (ii) a 2011 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any 2011 Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. A “Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

Payment of interest on the 2011 Bonds is payable in lawful money of the United States of America on each appropriate Interest Payment Date to the registered owner thereof according to the registration books of the Trustee (the “Owner”) as of the close of business on the Record Date.

DTC will act as securities depository for the 2011 Bonds. The 2011 Bonds will be executed and delivered as fully-registered securities registered initially in the name of Cede & Co. (DTC’s partnership nominee). So long as Cede & Co. is the registered owner of the 2011 Bonds, as nominee of DTC, references in this Official Statement to the “Owners” will mean Cede & Co., and will not mean the Beneficial Owners of the 2011 Bonds. See APPENDIX F — “Book Entry-Only System.”

Principal of and, premium, if any, and interest on the 2011 Bonds are payable directly to DTC by the Trustee in lawful money of the United States of America. Upon receipt of payments of principal, premium or interest, DTC is to remit such principal, premium or interest to the “DTC Participants” (as defined in Appendix F) for subsequent disbursement to the Beneficial Owners of the 2011 Bonds. See APPENDIX F — “Book Entry-Only System.”

Redemption

Optional Redemption. The 2011 Bonds maturing on or before July 1, 20__, are not subject to optional redemption prior to maturity.

The 2011 Bonds maturing on and after July 1, 20__, are subject to redemption in whole, or in part among maturities on such basis as shall be designated in a Request of the Agency filed with the Trustee, and in any case by lot within a maturity, on any date on or after July 1, 20__, at the option of the Agency from any available source of funds, at a redemption price equal to the principal amount of the 2011 Bonds to be redeemed plus accrued interest thereon to the redemption date, without premium.

Mandatory Sinking Fund Redemption. The 2011 Bonds maturing July 1 in each of the years _____, and _____ shall be subject to mandatory sinking fund redemption in part by lot on July 1, _____, July 1, _____ and July 1, _____, respectively, and on July 1 in each year thereafter, from Sinking Account payments made by the Agency, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be

purchased by the Agency as described below, in the aggregate respective principal amounts and on the dates as set forth in the following table (provided, however, that if some but not all of such 2011 Bonds have been redeemed, the total amount of all future Sinking Account payments attributable to such 2011 Bonds shall be reduced by the aggregate principal amount of such 2011 Bonds so redeemed, to be allocated among such Sinking Account payments on a pro rata basis, or on such other basis, in integral multiples of \$5,000 as determined by the Agency (written notice of which determination shall be given by the Agency to the Trustee)):

Term Bond Maturing on July 1, 20__

<i>Sinking Account Redemption Date (July 1)</i>	<i>Principal Amount To Be Redeemed or Purchased</i>
20__	\$_____
20__ [†]	

† Maturity.

Term Bond Maturing on July 1, 20__

<i>Sinking Account Redemption Date (July 1)</i>	<i>Principal Amount To Be Redeemed or Purchased</i>
20__	\$_____
20__ [†]	_____

† Maturity.

Term Bond Maturing on July 1, 20__

<i>Sinking Account Redemption Date (July 1)</i>	<i>Principal Amount To Be Redeemed or Purchased</i>
20__	\$_____
20__ [†]	_____

† Maturity.

In lieu of mandatory sinking fund redemption of any 2011 Bonds, amounts on deposit in the Special Fund may also be used and withdrawn by the Agency at any time for the purchase of such 2011 Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Agency may in its discretion determine. The par amount of any of the 2011 Bonds so purchased by the Agency in any twelve-month period ending on January 1 in any year shall be credited towards and shall reduce the par amount of such 2011 Bonds required to be redeemed on July 1 in such year.

Notice of Redemption. The Trustee will mail notice of redemption (by first class mail, postage prepaid) at least 30 days prior to the redemption date to the respective registered Owners of the 2011 Bonds designated for redemption.

Rescission of Notice of Redemption. The Agency has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. A notice of optional redemption will be canceled and annulled if for any reason funds will not be or are not available on the proposed redemption date, and a cancellation will not constitute an Event of Default under the Indenture. The Agency and the Trustee will have no liability to the Owners or any other party related to or arising from a rescission of

redemption. The Trustee will mail notice of a rescission of redemption in the same manner as the original notice of redemption was sent.

Selection of Bonds for Redemption. Whenever any 2011 Bonds or portions thereof are to be selected for redemption by lot, the Trustee will make such selection, in such manner as the Trustee shall deem fair and appropriate. For purposes of such selection, all 2011 Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Transfer and Exchange

The 2011 Bonds will be initially delivered only in book-entry form. So long as the book-entry system is in effect with respect to the 2011 Bonds, transfer and exchange of 2011 Bonds will be made in accordance with book-entry procedures. See APPENDIX F — “Book Entry-Only System” below.

The Trustee shall maintain at its principal corporate trust office books for the registration, exchange and transfer of the 2011 Bonds. In the event of discontinuance of the Book-Entry System, any 2011 Bond may, in accordance with its terms, be transferred, upon said registration books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed and meeting the other requirements of the Indenture.

Debt Service Schedule

Scheduled debt service on the 2011 Bonds and the 2006 Bonds, without regard to any optional redemption, is shown in the following table:

**TABLE 1
Debt Service Schedules**

<i>Year Ending July 1</i>	<i>2006 Bonds Principal⁽¹⁾</i>	<i>2006 Bonds Interest⁽¹⁾</i>	<i>2006 Bonds Total⁽¹⁾</i>	<i>2011 Bonds Principal</i>	<i>2011 Bonds Interest</i>	<i>2011 Bonds Total</i>	<i>Bonds Aggregate Total</i>
2011							
2012							
2013							
2014							
2015							
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							
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2041							
2042							

⁽¹⁾ The principal and interest on the 2006B Bonds maturing on July 1, 2011 was defeased by the Agency on _____, 2011.

SECURITY FOR THE 2011 BONDS

Tax Allocation Financing

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

See APPENDIX G — “Fiscal Consultant Report” for more information about applicable tax rates in the Project Area.

Tax Revenues

General. As provided in the redevelopment plan for the Project Area (the “Redevelopment Plan”), and pursuant to Article 6 of Chapter 6 of the Redevelopment Law (commencing with Section 33670 of the California Health and Safety Code) and Section 16 of Article XVI of the Constitution of the State of California, taxes levied upon taxable property in a redevelopment project area each year by or for the benefit of the State of California and any city, county, city and county, district or other public corporation (collectively referred to as “taxing agencies”) for each fiscal year beginning after the effective dates of the ordinance approving the original redevelopment plan for the redevelopment project area, are divided as follows:

1. To other taxing agencies: That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the redevelopment project area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the establishment of the redevelopment project area (the “Base Year Amount”) will be allocated to and when collected will be paid into the funds of the respective taxing agencies in the same manner as taxes by or for the taxing agencies on all other property are paid; and

2. To the Agency: Except for taxes which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989, which will be allocated to and when collected will be paid to the respective taxing agency, and except for statutory pass-through payments, that portion of the levied taxes each year in excess of the Base Year Amount will be paid into a special fund of the Agency to pay the principal of and interest on bonds, loans, moneys advanced to, or indebtedness (whether funded, refunded, assumed, or otherwise) incurred by the Agency to finance or refinance, in whole or in part, the redevelopment project area.

When all bonds, loans, advances, and indebtedness, if any, and interest thereon, have been paid, all moneys thereafter received from taxes upon the taxable property in the redevelopment project area is paid into the funds of the respective taxing agencies as taxes on all other property are paid.

Definition. The term “Tax Revenues” is defined in the Indenture to mean all taxes annually allocated to the Agency with respect to the Project Area following the Closing Date, pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, including all other payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations (but excluding payments to the Agency with respect to personal property within the Project Area pursuant to Section 16110, *et seq.*, of the Government Code of the State of California); provided, however, that Tax Revenues shall not include (a) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to Section 33334.3 of the Redevelopment Law, except to the extent permitted under the Redevelopment Law to be applied to the payment of the principal of and interest and premium (if any) on the 2006 Bonds, the 2011 Bonds or any Parity Debt and (b) amounts payable by the Agency pursuant to the Pass-Through Agreements and Sections 33607.5 and 33607.7 of the Redevelopment Law, to the extent not subordinated to the payment of principal of and interest and prepayment premium (if any) on the 2011 Bonds or any Parity Debt. See “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT — Low and Moderate Income Housing” herein:

The Agency is subject to a number of statutory pass-through obligations that are payable from tax increment revenue prior to the calculation of Tax Revenues and are accordingly paid from tax increment prior

to the payment of debt service on the Bonds. See “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT — Statutory Pass-Through Requirements”.

The Agency’s ability to collect tax increment and pay debt service is constrained by limitations set forth in the Redevelopment Plan. See “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT — Redevelopment Plan Limitations.”

See “RISK FACTORS” and “LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS” below for information about various factors that could impact the availability of Tax Revenues.

Pledge of Tax Revenues

The 2011 Bonds and any additional obligations payable from Tax Revenues on a parity with the 2011 Bonds, including the 2006 Bonds (“Parity Debt”) are secured by a first pledge of, security interest in and lien on the Tax Revenues. A special fund known as the “Special Fund,” which is held by the Agency, was previously established for the Bonds under the Indenture. The Agency will deposit all of the Tax Revenues from the Project Area received in any Bond Year in the Special Fund promptly upon receipt by the Agency. Amounts in the Special Fund will be used to first pay the amounts due with respect to the 2006 Bonds, the 2011 Bonds and any additional Parity Debt. Amounts in the Special Fund are also to be used to replenish the Reserve Account (described below).

Tax Revenues received during a Bond Year in excess of the amounts required to be paid for such purposes are released from the pledge and lien of the Indenture and may be used for any lawful purpose of the Agency.

Reserve Account

A special account known as the “Reserve Account”, which is held in trust by the Trustee, was previously established for the Bonds together with subaccounts for each series of 2006 Bonds, the 2011 Bonds and any Parity Debt. The amounts on deposit in subaccounts of the Reserve Account related to the 2006 Bonds secure only the 2006 Bonds and do not secure any other Bonds. The amounts on deposit in the subaccount established for the 2011 Bonds will secure only the 2011 Bonds and not any other Bonds. The amount on deposit in the Reserve Account shall be maintained at the Reserve Requirement in accordance with the terms of the Indenture. The term “Reserve Requirement” is defined in the Indenture to mean, as of the date of any calculation, the lesser of (a) Maximum Annual Debt Service or (b) the maximum amount permitted to be deposited in the Reserve Account under the Internal Revenue Code of 1986, as certified to the Trustee by the Agency. The term “Maximum Annual Debt Service” is defined in the Indenture to mean, as of the date of calculation, the largest aggregate amount of scheduled debt service for the current or any future Bond Year payable on the 2006 Bonds, the 2011 Bonds and any additional Parity Debt in such Bond Year. For purposes of such calculation, there are excluded (i) interest on any Parity Debt which is to be paid from amounts constituting capitalized interest and (ii) payments with respect to any Parity Debt to the extent that the proceeds of such Parity Debt are deposited in an escrow fund from which amounts may not be released to the Agency unless the Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County) are at least equal to one hundred twenty five percent (125%) of the amount of Maximum Annual Debt Service. Currently, the 2006 Bonds are secured by a Municipal Bond Debt Service Reserve Fund Policy (the “2006 Reserve Fund Policy”) issued by Financial Guaranty Insurance Corporation (“FGIC”) in the maximum amount of \$4,453,693.76. At closing, \$_____ will be deposited into the 2011 Subaccount of the Reserve Account for the 2011 Bonds, which, together with the 2006 Reserve Policy, will equal the Reserve Requirement.

The Agency has the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering a Qualified Reserve Account Credit Instrument to the Trustee. See

APPENDIX A — “Summary of Certain Provisions of the Indenture.” The 2006 Reserve Fund Policy has been reinsured by National Public Finance Guarantee Corp., formerly MBIA Insurance Corp. of Illinois (“NPFGC”). According to a posting on the FGIC website dated August 4, 2010, FGIC Corporation, the parent company of FGIC, has filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Such posting also states that none of its subsidiaries or affiliates, including FGIC, is part of the Chapter 11 filing. According to a posting on the FGIC website dated December 2, 2010, investors holding securities guaranteed by FGIC have formed a policyholder group to negotiate a proposed restructuring plan with FGIC. Information set forth on either of such websites is not incorporated herein by reference. In the event that the 2006 Reserve Fund Policy were to be terminated or discharged in a bankruptcy proceeding, the Agency would be required to deposit available Tax Revenues to the 2006 Bonds subaccount of the Reserve Account in an amount that would bring the funds on deposit in the Reserve Account up to the Reserve Requirement.

Parity Debt

The 2011 Bonds have been issued as Parity Debt under the Indenture. The Indenture provides that, in addition to the 2006 Bonds and the 2011 Bonds, the Agency may issue or incur additional Parity Debt in such principal amount as determined by the Agency. The Agency may issue or incur such Parity Debt subject to specific conditions precedent, including the following:

(a) The Tax Revenues estimated to be received for the then current Bond Year, based on the assessed value of property within the Project Area as set forth in the written records of the County, plus (at the option of the Agency) the Additional Revenues, shall be at least equal to 125% of Maximum Annual Debt Service on all Bonds which will be Outstanding immediately following the issuance of such Parity Debt. For purposes of computing the amount of Tax Revenues, the following requirements will be observed:

(i) Tax Revenues will be calculated on the basis of a tax rate of \$1.00 per \$100 of assessed value and will not include the amounts of any State tax subventions;

(ii) the amount of Tax Revenues will be the amount received in the most recent Fiscal Year (which may be the then-current Fiscal Year) for which records are available from the County establishing the assessed valuations of property in the Project Area;

(iii) The Indenture defines “Additional Revenues” to mean, as of the date of calculation, the amount of Tax Revenues which, as shown in the Report of an Independent Fiscal Consultant, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in the Project Area due to the completion of construction which is not then reflected on the tax rolls, or due to transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls.

(b) The Parity Debt Instrument providing for the issuance of such Parity Debt will provide for the deposit into the Reserve Account of an amount required to cause the balance therein to equal the full amount of the Reserve Requirement, which deposit will be made concurrent with the issuance of such Parity Debt and may be in whole or in part in the form of a Qualified Reserve Account Credit Instrument.

(c) The proceeds of such Parity Debt may be deposited into an escrow fund from which amounts may not be released to the Agency unless and until the Tax Revenues (as evidenced in the written records of the County) at least equal 125% of the amount of Maximum Annual Debt Service. See APPENDIX A — “Summary of Certain Provisions of the Indenture.”

The Project Area currently has a limit on bonded indebtedness that can be Outstanding at any one time of \$95,000,000. As of the date of issuance of the 2011 Bonds, \$95,000,000* in Bonds will be Outstanding. See “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT — Redevelopment Plan Limitations” herein.

THE AGENCY

Agency Existence and Personnel

The Agency was established by the Santa Monica City Council on August 13, 1957 pursuant to the Redevelopment Law. With the approval of the Council, the Mayor appointed the original five members of the Agency simultaneously with its creation. Appointive members continued to serve until May 1972 when the Council, pursuant to Section 33200 of the Redevelopment Law, declared itself to be the Agency and assumed all the rights, powers, duties, privileges and immunities vested in the Agency. The purpose of the Agency is to eliminate blight and to promote economic revitalization within designated project areas of the City.

The Agency has three project areas other than the Project Area: the Downtown Redevelopment Project Area, Ocean Park Redevelopment Project Area 1A and Ocean Park Redevelopment Project Area 1B.

The members of the City Council of the City serve as the governing body of the Agency and exercise all rights, powers, duties and privileges of the Agency.

Members of the Agency and their terms of office are shown below:

<i>Member</i>	<i>Term Expires</i>
Richard Bloom, <i>Agency Chair</i>	November 2012
Gleam Davis, <i>Agency Vice Chair</i>	November 2012
Robert Holbrook, <i>Member</i>	November 2014
Kevin McKeown, <i>Member</i>	November 2014
Pam O’Connor, <i>Member</i>	November 2014
Terry O’Day, <i>Member</i>	November 2012
Bobby Shriver, <i>Member</i>	November 2012

The Agency has entered into various agreements with the City for financial assistance and services, facilities and personnel support. The Agency reimburses the City for all such services performed on its behalf in amounts equal to the gross salary and employee fringe benefits for all City employees used by the Agency, plus an allocation of overhead costs.

Agency Powers and Duties

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

All powers of the Agency are vested in its seven members. The Agency exercises governmental functions in carrying out projects and has authority to acquire, develop, administer and sell or lease property, including the right to acquire property, to issue bonds and expend their proceeds.

* Preliminary, subject to change.

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

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

Agency Financial Statements

The Redevelopment Law requires redevelopment agencies to have an independent financial audit conducted each year. The financial audit is also required to include an opinion of the Agency's compliance with laws, regulations and administrative requirements governing activities of the Agency. The firm of Mayer Hoffman McCann P.C., independent accountants, prepared a financial statement for the Agency for the fiscal year ended June 30, 2010. The firm's examination was made in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Audit Standards, issued by the Comptroller General of the United States. The Agency follows fund accounting principles reflecting the modified accrual basis of accounting in which revenues are recognized when they become measurable and available and expenditures are generally recognized when incurred except for principal and interest on general long-term debt, which is recognized when due.

The audited financial statements of the Agency, including Mayer Hoffman McCann P.C.'s auditor's report and report on compliance and on internal control over financial reporting, are attached as APPENDIX C — "Audited Financial Statements of the Agency for Fiscal Year Ended June 30, 2010." *Mayer Hoffman McCann P.C. has not performed any post-audit review of the financial condition or operations of the Agency.*

Outstanding Agency Debt

Other than the 2006 Bonds, the Agency has no outstanding indebtedness secured by a pledge of Tax Revenues on a parity with the 2011 Bonds. The Agency does, however, have various indebtedness and obligations payable from tax increment generated in the Project Area. See APPENDIX C — "Audited Financial Statements of the Agency for Fiscal Year Ended June 30, 2010."

The Agency has entered into a number of obligations which are either secured by a pledge of all or a portion of Tax Revenues on a basis that is subordinate to the pledge and lien on Tax Revenues for repayment of the 2006 Bonds and the 2011 Bonds under the Indenture or which are not secured by a pledge of any part of Tax Revenues. Principal Agency obligations secured by a pledge of Tax Revenues on a basis subordinate to the Bonds are set forth below.

City Obligation. On September 1, 2010 the Agency entered into a Master Cooperation Agreement and two separate implementing agreements with the City of Santa Monica to commit \$5.7 billion to the construction of various projects in support of the Agency's Five Year Implementation Plan goals of affordable housing, disaster prevention and mitigation, community revitalization and other purposes, all in accordance with Section 33445 of the Law. The Agency's obligations to the City under the Master Cooperation Agreement are secured by a pledge of tax increment revenues on a basis subordinate to the pledge of Tax Revenues to the Bonds.

Lastly, the Agency is indebted to the City's Parking Authority pursuant to a certain Purchase/Sales Agreement for the purchase/sale of six downtown parking structures with related land for an initial principal amount of \$60 million. The related promissory notes, secured by a deed of trust, call for annual principal

payments on a fully amortizing basis for a total term of 30 years. The Agency's payment obligation is not secured by a pledge of gross tax increment of the Agency and is expressly subordinate to the Bonds, as confirmed by resolution of the City adopted May 24, 2011.

Bank Loans. On May 1, 2008, the Agency entered into a Line of Credit Agreement with Bank of America, N.A. (the "Bank of America Loan Agreement"). The Agreement calls for an initial line of credit of up to \$50 million which may be increased at the Bank's option to \$75 million at the request of the Agency. The line is secured by future property tax increment revenues of the Agency for the Project Area attributable to the Housing Set-Aside. The Agency has drawn all of the initial \$50 million available to be drawn under the line of credit [and has transferred such amounts which remain unexpended to the City for application pursuant to the Master Cooperation Agreement]. The Agency's obligation under the Bank of America Loan Agreement is subordinate to the Bonds. The Agency makes annual payments at a variable interest rate in amounts which are expected to be fully amortized by June 1, 2031.

On March 11, 2011, the Agency entered into a Loan Agreement with Wells Fargo Bank, National Association (the "Wells Fargo Bank Loan Agreement" and, together with the Bank of America Loan Agreement, the "Bank Loans"). Pursuant to the Wells Fargo Loan Agreement, the Agency has borrowed \$60 million to fund projects identified in the Agency's Five Year Implementation Plan and further identified in the Wells Fargo Loan Agreement and the Master Cooperation Agreement. [The Agency has transferred the proceeds of the Wells Fargo Bank Loan to the City for implementation and application pursuant to the Master Cooperation Agreement.] The Agency's obligations under the Wells Fargo Bank Loan Agreement are secured by a pledge of Tax Revenues of the Agency, exclusive of Housing Set-Aside, on a basis subordinate to the Agency's pledge of Tax Revenues under the Indenture for the 2006 Bonds and the 2011 Bonds. The Bank Loans were entered into pursuant to the Agency's authority to receive bank loans and do not constitute bonded indebtedness of the Agency for purposes of the Agency's bonded indebtedness limit.

Future Subordinate Obligations. The Agency enters into other agreements from time to time which may be material to the Agency's finances and which are permitted under the Indenture as Subordinate Debt. See APPENDIX A — "Summary of Certain Provisions of the Indenture—Issuance of Subordinate Debt."

[Insert Map]

THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT

General

On January 17, 1994, the Northridge Earthquake occurred with serious consequences in the City. The President declared the earthquake to be a major disaster under federal law.

On June 21, 1994, pursuant to the Redevelopment Law, the Disaster Project Law, the California Constitution, and all applicable local codes and ordinances, the City adopted the Redevelopment Plan for the Project and established the Project Area. Redevelopment of the Project Area pursuant to the Redevelopment Plan is expected to attain the purposes of the Redevelopment Law and the Disaster Project Law by: (1) planning, design and/or redevelopment of areas which are in need of maintenance, repair, restoration, demolition or replacement as a result of the Northridge Earthquake; (2) protecting and promoting sound development and redevelopment of earthquake-stricken areas and injurious conditions through the employment of appropriate means; (3) installation of new or repairing or replacing existing public improvements, facilities and utilities in areas which are currently inadequately served with regard to such improvements, facilities and utilities; and (4) other means as determined appropriate by the Agency.

The Project Area encompasses approximately 2.89 square miles or 34.8% of the City's total land area of 8.3 square miles. As set forth on the map of the Project Area above, the Project Area is generally bounded by Pico Boulevard on the south, 26th Street on the east, Montana Avenue on the north and Pacific Coast Highway/Ocean Front Walk to the west. Slightly less than one-half of the City's population of 92,703 (as of January 1, 2010) resides in the Project Area. Selection of the Project Area boundaries was guided by inclusion of the most severely damaged properties in need of public assistance for repair and recovery; approximately 90% of all red-tagged and approximately 80% of all yellow-tagged buildings in the City at the time of formation were included in the Project Area.

Land Use

The table below summarizes Project Area land uses and assessed values in the Project Area.

TABLE 2
Earthquake Recovery Redevelopment Project
Summary of Land Uses

<i>Category</i>	<i>No. of Parcels</i>	<i>2010-11 Value⁽¹⁾</i>	<i>Percent of Total Assessed Value</i>
Residential	6,340	\$ 4,131,177,046	39.61%
Commercial	1,037	5,055,785,610	48.47
Industrial	180	275,720,622	2.64
Institutional	102	128,958,666	1.24
Dry Farm	1	703,142	0.01
Recreational	17	25,150,467	0.24
Vacant Land	77	64,819,474	0.62
Government/Exempt	195	0	0.00
Total Parcels:	7,949	\$ 9,682,315,027	92.83
Possessory Interest		\$ 217,893,457	2.09
Unsecured		530,191,136	5.08
Total Value:		<u>\$ 10,430,399,620</u>	<u>100.00%</u>

Source: HdL Coren & Cone.

Redevelopment Plan Limitations

The Agency has covenanted in the Indenture to undertake financing of redevelopment of the Project Area in conformance with the Redevelopment Plan and the Redevelopment Law. The Redevelopment Plan was adopted by the City Council on June 21, 1994 pursuant to Ordinance No. 1747.

Pursuant to Senate Bill 1045 (“SB 1045”) in connection with adoption of statutes requiring an ERAF shift for fiscal year 2003-04, and pursuant to Senate Bill 1096 (“SB 1096”) in connection with the adoption of statutes requiring an ERAF shift for fiscal years 2004-05 and 2005-06, the State Legislature authorized amendments of redevelopment plans to extend by one year the time limit of the effectiveness of the plan and the time limit to repay indebtedness and receive tax increment.

Accordingly, the City Council has extended the time limits of the Project Area as permitted by SB 1045 pursuant to Ordinance No. 2108 (CCS) adopted on January 13, 2004. The Agency further extended the time limits as permitted by SB 1096 pursuant to Ordinance No. 2197 (CCS) adopted on July 11, 2006.

The following table summarizes the various limitations established by the Redevelopment Plan with respect to tax increment and bonded indebtedness.

<i>Description</i>	<i>Limitation</i>
Plan Life:	June 21, 2027
Final Date to Incur Debt ⁽¹⁾ :	June 21, 2014
Final Date to Collect Tax Increment and Repay Debt:	June 21, 2042 ⁽²⁾
Limit on Tax Increment allocated to the Agency:	None
Limit on Outstanding Bonded Indebtedness ⁽³⁾ :	\$95,000,000
Outstanding Bonded Indebtedness ⁽⁴⁾ :	\$95,000,000*

⁽¹⁾ This limit does not prevent the Agency from incurring debt to be paid from the Agency’s Low and Moderate Income Housing Fund or establishing more debt in order to fulfill the Agency’s housing obligations under Section 33413 of the Redevelopment Law. Housing Set-Aside is pledged to payment of up to 20% of the debt service on the 2006 Bonds.

⁽²⁾ The Agency has covenanted in the Indenture to pay the debt service due on the 2011 Bonds maturing on July 1, 2042 on or prior to June 21, 2042.

⁽³⁾ This limitation does not limit non-bonded indebtedness, including loans, advances or reimbursement agreements. Limit is on Bonds Outstanding at any one time.

⁽⁴⁾ Includes the 2011 Bonds.

Source: The Agency.

* Preliminary, subject to change.

Major Taxable Property Owners

Major Owners List. The following table identifies the top 10 property owners, describes their land use within the Project Area, and identifies each owner's share of the 2010-11 Project Area assessed value.

TABLE 3
Earthquake Recovery Redevelopment Project
Top Ten Taxable Property Owners
Fiscal Year 2010-11 ⁽¹⁾

	<i>Owner</i>	<i>Description</i>	<i>Assessed Value</i>	<i>% of Total Assessed Value</i>	<i>% of Total Incremental Value</i>
1	California Colorado Center LLC ⁽¹⁾		\$ 469,587,234	4.50%	7.14%
2	Water Garden Realty Holding LLC		456,965,588	4.38%	6.95%
3	Ocean Avenue LLC ⁽¹⁾		146,613,466	1.41%	2.23%
4	New Santa Monica Beach Hotel ⁽¹⁾		136,423,289	1.31%	2.07%
5	RAND Corporation		131,690,037	1.26%	2.00%
6	Douglas Emmett Realty Fund 1998 ⁽¹⁾		118,217,078	1.13%	1.80%
7	Sisters of Charity Leavenworth Health ⁽¹⁾		114,185,821	1.09%	1.74%
8	CLPF-Arboretum		104,863,751	1.01%	1.59%
9	1299 Ocean LLC ⁽¹⁾		96,600,000	0.93%	1.47%
10	Equity Office Properties ⁽¹⁾		75,990,000	0.73%	1.16%
	Totals		\$ 1,851,136,264	17.75%	28.15%
Total and Incremental Values				\$10,430,399,620	\$6,575,102,284

⁽¹⁾ Property owners with pending assessment appeals. See "TAX REVENUES — Appeals of Assessed Values."
Source: HdL Coren & Cone

Recent Transfers

The projection of Tax Revenues (see "TAX REVENUES — Projected Tax Revenues") identifies 289 transfers of ownership that occurred after the January 1, 2010 lien date for fiscal year 2010-11. These transfers are expected to add \$86,271,428 in new value to the fiscal year 2011-12 County tax roll (for transfers from January 1, 2010 through December 31, 2010) and \$7,779,962 in new value to the fiscal year 2012-13 tax roll (for transfers from January 1, 2011 through February 28, 2011) for the Project Area. See APPENDIX G — "Fiscal Consultant Report."

The projections also identify potential reduction in value from parcels in foreclosure of \$10,016,000 for fiscal year 2012-13.

Statutory Pass-Through Requirements

General. Under the Redevelopment Law (Health & Safety Code Section 33607.5), "statutory pass-through" payments are made to all jurisdictions receiving a portion of the basic one percent levy. The pass-through payments are made as follows during three statutorily-defined periods (except for the City which receives its portion only as to the first allocation below):

First year the Agency receives tax increment (Fiscal Year 1995-96) through the life of the Project Area: The Agency must pay 25 percent of gross tax increment revenue (net of Housing Set-Aside).

Year 11 (Fiscal Year 2005-06) after the Agency first receives tax increment through the life of the Project Area: The Agency must pay 21 percent of the tax increment revenue (net of Housing Set-Aside) derived from growth in assessed value in excess of the assessed value of the Project Area in Year 10.

Year 31 (Fiscal Year 2025-26) after the Agency first receives tax increment through the life of the Project Area: The Agency must pay 14 percent of the tax increment revenue (net of Housing Set-Aside) derived from growth in assessed value in excess of the assessed value of the Project Area in the 30th year.

The Agency pays statutory pass-through payments to various County- and school-related entities.

Santa Monica Community College District Cooperation Agreement. The Agency is a party to a Cooperation Agreement (Contract No. 8216 (RAS)) (the “SMCCD Cooperation Agreement”) with the Santa Monica Community College District (“SMCCD”) dated July 15, 2005 pursuant to which the Agency agreed to reimburse SMCCD for up to \$10,206,823 of the costs of building a new liberal arts building. The Agency made its first reimbursement payment in Fiscal Year 2005-06. The SMCCD Cooperation Agreement provides that, pursuant to Section 33607.5(a)(2) of the Redevelopment Law, the portion of the Agency’s statutory pass-through payments to SMCCD that would be available to SMCCD for use for educational facilities (52.5%) will be reduced as a result of its payments under the SMCCD Cooperation Agreement by the amount paid to SMCCD under the SMCCD Cooperation Agreement. As a result, the statutory pass-through payment to SMCCD is reduced until this amount is paid in full, which is projected to occur in Fiscal Year 2027-28.

Santa Monica-Malibu Unified School District Memorandum of Understanding. The Agency is considering entering into an agreement with the Santa Monica-Malibu Unified School District (the “School District”) to advance an approximately \$57 million portion of the capital component of the statutory pass-through requirements in order to assist in financing the Civic Center Joint Use Project. If made, the advance would function similarly to the SMCCD Cooperation Agreement and would reduce future statutory pass-throughs. The Agency makes no assurance as to if or when such an agreement might be entered into or if and when such an advance will be made.

Section 33676. For redevelopment project areas established prior to January 1, 1994, Section 33676 of the Redevelopment Law allows taxing entities to receive additional property taxes in a redevelopment project area above the base year revenue amount. Such payments are based on annual increases in the real property portion of the base year value up to the inflation limit of 2 percent. Because the Project Area was established after January 1, 1994, there are no entities receiving Section 33676 payments in the Project Area.

Priority of Pass-Through Obligation. Under the Redevelopment Law, the Agency may subordinate the payment of statutory pass-through payments to the repayment of indebtedness. However, the Agency has not sought approval of subordination from the pass-through entities and, accordingly, the Tax Revenues projection set forth in this Official Statement assumes that the amount of Tax Revenues available to pay debt service on the 2011 Bonds reflects the prior payment of the pass-through payments from tax increment generated in the Project Area.

Tax Sharing Agreements

The Agency has not entered into any Owner Participation Agreements or any other obligations that constitute a pledge of Tax Revenues or that would in any way have a lien on Tax Revenues that would be superior to the lien established for payment of debt service on the 2011 Bonds.

Low and Moderate Income Housing

Chapter 1337, Statutes of 1976, added Sections 33334.2 and 33334.3 to the Redevelopment Law requiring redevelopment agencies to set aside 20% of all tax increment revenues allocated to redevelopment agencies from project areas adopted after December 31, 1976, in a low- and moderate-income housing fund to be expended for authorized low- and moderate-income housing purposes (“Housing Set-Aside”). Amounts on deposit in the low-and moderate-income housing fund may also be applied to pay debt service on bonds, loans or advances of redevelopment agencies to provide financing for such low- and moderate-income housing purposes.

Housing Set-Aside segregated by the Agency pursuant to this requirement is included in the definition of Tax Revenues for the purpose of paying up to 20% of debt service on the 2006 Bonds and a portion of the debt service on any Parity Debt to the extent proceeds of such Parity Debt are applied for eligible Housing Set-Aside purposes. Housing Set-Aside is not available to pay debt service on the 2011 Bonds.

TAX REVENUES

Historical Assessed Value and Tax Revenues

Historical Assessed Value. Between fiscal years 2001-02 and 2010-11, the taxable value within the Project Area increased by \$4,492,969,020 (75%). Annual growth during this period ranged from a low of (-0.87%) in 2010-11 to a high of 26.48% in 2002-03. Secured value has risen in each fiscal year except 2010-11; however, unsecured values experienced minor reductions for 2002-03 (-5.37%), 2004-05 (-9.75%), 2009-10 (-3.06%) and 2010-11 (-5.89%). This fluctuation is not uncommon for unsecured values. The Project Area’s taxable assessed values for fiscal year 2010-11 exceed the base year value by \$6,597,598,116.

Set forth in the table below is a summary of the historical assessed values and Tax Revenues (as defined in the Indenture) in the Project Area for fiscal years 2006-07 through 2010-11.

Table 4
Earthquake Recovery Redevelopment Project
Historical Project Area Assessed Values (000s)

	<i>Revised Base Year 1993-1994⁽²⁾</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
<u>Secured⁽¹⁾</u>						
Land	\$1,785,030,900	\$ 4,245,949,423	\$4,586,382,701	\$5,053,499,402	\$ 5,213,744,866	\$ 5,206,882,615
Improvements	2,060,082,620	4,405,316,658	4,655,434,825	5,265,379,497	5,403,136,820	5,427,019,971
Personal Prop	43,156,789	38,649,772	37,534,501	37,221,821	43,146,023	38,606,136
Exemptions	<u>(249,410,203)</u>	<u>(469,250,061)</u>	<u>(502,642,292)</u>	<u>(531,811,795)</u>	<u>(735,193,640)⁽³⁾</u>	<u>(749,804,406)</u>
TOTAL SECURED	<u>3,638,860,106</u>	<u>8,220,665,792</u>	<u>8,776,709,735</u>	<u>9,824,288,925</u>	<u>9,924,834,069</u>	<u>9,922,704,316</u>
<u>Unsecured</u>						
Land	0	0	0	0	0	0
Improvements	90,742,357	198,439,841	221,583,565	234,680,010	235,862,530	242,838,016
Personal Prop	394,721,559	471,811,501	514,679,581	520,354,844	583,112,050	543,971,121
Exemptions	<u>(269,026,686)</u>	<u>(161,636,328)</u>	<u>(172,923,820)</u>	<u>(173,885,200)</u>	<u>(255,630,300)</u>	<u>(256,618,001)</u>
TOTAL UNSECURED	<u>216,437,230</u>	<u>508,615,014</u>	<u>563,339,326</u>	<u>581,149,654</u>	<u>563,344,280</u>	<u>530,191,136</u>
GRAND TOTAL⁽⁴⁾	<u>\$3,855,297,336</u>	<u>\$ 8,729,280,806</u>	<u>\$9,340,049,061</u>	<u>\$10,405,438,579</u>	<u>\$10,488,178,349</u>	<u>\$10,452,895,452</u>

(1) Secured values include state assessed non-unitary utility property.

(2) Base Year Value reflects an adjustment for the transfer of railroad properties values to the Unitary Roll.

(3) Increase in exemptions reflects completion of substantial improvements to Sisters of Charity Hospital], Base Year Value was decreased most recently in 2009-10.

(4) Fiscal Years 2007-08 and 2009-10 have been subsequently adjusted to reflect successful appeals and exemption adjustments. See APPENDIX G — “FISCAL CONSULTANT REPORT.”

Source: County of Los Angeles Lien Date Rolls. Compiled by HdL Goren & Cone.

Historical Tax Collection. The County has not elected to follow the procedures of Sections 4701 *et seq.* of the California Revenue and Taxation Code, known as the “Teeter Plan” as to general taxes entered and collected on the secured tax roll. Therefore, property tax revenues in the Project Area reflect actual collections.

The following table shows, for each of the most recent five fiscal years: (i) total tax levy, (ii) receipts of tax increment and (iii) collection rates.

TABLE 5
Earthquake Recovery Redevelopment Project
Historical Tax Receipts

<i>Fiscal Year</i>	<i>Tax Levy</i>	<i>Current Year Collections Percentage</i>	<i>Prior Year Collections⁽¹⁾</i>	<i>Total Collections Apportioned</i>	<i>Total Collections Percentage</i>
2005-06	\$44,828,269	98.91%	\$6,269,325	\$50,607,576	112.89%
2006-07	50,986,726	97.67%	4,194,394	53,995,445	105.90%
2007-08	56,700,771	97.90%	4,758,374	60,267,687	106.29%
2008-09	65,702,562	96.73%	2,699,474	66,251,106	100.83%
2009-10	68,845,280	97.11%	1,414,210	68,268,572	99.16%

⁽¹⁾ Prior Year Collections include Supplemental Revenue, reductions for taxpayer refunds and revenue from prior years. Source: Los Angeles County Auditor/Controller Office; Disbursement Tax Division “CRA Remittance Advice.”

Based on the table above, the average rate of collections for fiscal years 2005-06 through 2009-10 was approximately 97.66% and when redemptions for prior years’ delinquencies (including acceptable penalties) are included, the average rate of collections was approximately 105.02%. A collection rate of over 100% reflects the fact that roll changes occurred after the lien date that increased assessed values and resulted in a greater amount of revenue. This greater amount of revenue, when compared to the lien date tax roll, produces a collection rate of greater than 100%. For purposes of the projection of future Tax Revenues, the Agency has assumed a 100% collection rate.

Historical Supplemental Assessments. The following table shows the tax revenue from Supplemental Assessments for previous years within the Project Area received by the Agency for Fiscal Years 2005-06 through 2009-10. These amounts are exclusive of refunds and other deductions withheld by the County. The projection of Tax Revenues assumes no revenue from Supplemental Assessments.

TABLE 6
Supplemental Revenue
Fiscal Year 2005-06 through 2009-10

<i>Fiscal Year</i>	<i>Amount</i>
2005-06	\$5,955,107
2006-07	3,527,499
2007-08	4,964,632
2008-09	2,072,035
2009-10	1,298,933

Source: Los Angeles County Auditor/Controller Office; compiled by HdL Coren & Cone

Appeals of Assessed Values

General. Pursuant to California law, property owners may apply for a reduction of their property tax assessment by filing a written appeal. After the applicant and the assessor have presented their arguments, the applicable local appeals board makes a final decision on the proper assessed value. The appeals board may rule in the assessor's favor, rule in the applicant's favor, or set its own opinion of the proper assessed value, which may be more or less than either the assessor's opinion or the applicant's opinion.

Any reduction in the assessment ultimately granted applies to the year for which the application is made and may also affect the values in subsequent years. Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Current year values may also be adjusted as a result of a successful appeal of prior year values. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund for overpayment.

Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date. A base year assessment appeal has significant future revenue impacts because a reduced base year assessment will then reduce the compounded value of the property prospectively. Except for the 2% inflation factor, the value of the property cannot be increased until a change of ownership occurs or additional improvements are added.

Section 51 of the Revenue and Taxation Code permits a reduction in the assessed value if the full cash value of the property has been reduced by damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Reductions made under this code section may be initiated by the County Assessor or requested by the property owner.

After a roll reduction is granted under this section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and it may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See "LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS — Property Tax Limitations-Article XIII A" below.

The taxable value of unitary property may be contested by utility companies and railroads to the State Board of Equalization. Generally, the impact of utility appeals is on the statewide value of a utility determined by the State Board of Equalization. As a result, the successful appeal of a utility may not impact the taxable value of a project area but could impact a project area's allocation of unitary property tax revenues.

Historical Appeals. Since fiscal year 2005-06, 911 assessment appeals have been filed on properties within the Project Area. Many of the appeals filed in the Project Area are based on Section 51 of the Revenue and Taxation Code (described above). Of the 911 appeals filed, 188 have been allowed by the County with a reduction in value and 100 were denied or withdrawn. There are 623 appeals currently pending on 439 properties within the Project Area. For purposes of projecting future Tax Revenues, the Fiscal Consultant report estimates, based on the historical averages, that 287 of the currently pending appeals will be allowed and that these successful appeals will result in a reduction of the fiscal year 2011-12 assessed value of \$246,407,427. The projection does not reflect any reductions in tax increment revenue for refunds resulting from successful appeals.

The following table summarizes the estimated potential losses that are incorporated into the projections. Actual appeals, reductions and refunds may vary from historical averages.

<i>Total No. of Appeals</i>	<i>No. of Resolved Appeals</i>	<i>No. of Successful Appeals</i>	<i>Average AV Reduction</i>	<i>No. of Appeals Pending⁽¹⁾</i>	<i>Value of Appeals Pending</i>	<i>Estimated No. of Appeals Allowed</i>	<i>Estimated Reduction of FY 2010-11 AV for Pending Appeals Allowed</i>	<i>FY 2010-11 AV Reduction for Resolved Appeals</i>
911	288	188	12.02%	439	\$3,141,431,924	287	\$246,407,427	\$22,495,832

⁽¹⁾ Number of pending appeals do not include 184 appeals that are pending on the same parcels for multiple years.

⁽²⁾ The pending appeals included in the projection of value loss do not include appeals on the same parcel in multiple years. Reduction in value in such cases is not cumulative.

The following table shows the top ten property taxpayers with pending appeals. There are appeals on the same parcels for multiple years. Reduction in value in such cases is not cumulative.

TABLE 7
Earthquake Recovery Redevelopment Project
Largest Taxpayers
With Pending Appeals
As of _____, 2011

<i>Owner</i>	<i>Fiscal Year</i>	<i>No. Of Parcels</i>	<i>Value Under Appeal</i>	<i>Owners Opinion of Value</i>	<i>Max. Potential Value Loss</i>
California Colorado Center LLC	2010-11	2	\$ 469,310,104	\$ 330,000,000	\$ 139,310,104
Ocean Avenue LLC	2006-07	3	128,470,000	85,587,314	42,882,686
	2008-09	1	9,126,369	3,000,000	6,126,369
	2009-10	3	145,571,407	39,988,000	105,583,407
	2010-11	3	146,613,466	39,360,000	107,253,466
	2010-11	1	131,505,096	60,000,000	71,505,096
New Santa Monica Beach Hotel	2010-11	1	131,505,096	60,000,000	71,505,096
Rand Corporation	2008-09	1	116,799,652	86,799,652	30,000,000
Douglas Emmett Realty Fund 1998	2010-11	2	118,212,311	0	118,212,311
Sisters of Charity Leavenworth Health	2010-11	1	2,511,801	1,255,901	1,255,900
1299 Ocean LLC	2007-08	1	62,000,000	0	62,000,000
	2008-09	2	107,100,000	68,000,000	39,100,000
	2010-11	2	96,600,000	90,000,000	6,600,000
Equity Office Properties Trust	2009-10	1	84,000,000	66,000,000	18,000,000
	2010-11	1	75,990,000	40,000,000	35,990,000

Source: Los Angeles County Clerk of the Board as compiled by HdL Coren & Cone.

Projected Tax Revenues

The tax increment revenue projections for the Project Area, as prepared by HdL Coren & Cone, are summarized in the table below. These projections are based upon the following assumptions. The Agency believes these assumptions to be reasonable, but to the extent that assessed valuations, the tax rates or the percentage of taxes collected are less than the Agency's assumptions, the Tax Revenues available to pay debt service on the 2011 Bonds could be less than those projected. *No assurance can be given that the level of projected Tax Revenues will be achieved.* See Appendix G for the entire Fiscal Consultant Report.

Tax Rate: The Project Area contains two Tax Rate Areas ("TRAs"). Within the two Project Area TRAs there is one tax rate. The debt service override rates for indebtedness approved by the voters after January 1, 1989 is not included in the tax rate for purposes of calculating Tax Revenues and the projection

reflects the fact that certain existing override rates will terminate in the next few fiscal years. See “LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS — Exclusion of Tax Revenues for General Obligation Bonds Debt Service”.

The projection uses a tax rate of \$1.0037 per \$100 of secured assessed value through Fiscal Year 2034-35 and \$1.00 per \$100 of secured assessed value thereafter.

Inflation Rate: In California, real property values (land and improvements) are subject to an annual inflationary increase, as allowed under Proposition 13. The projection table assumes, with respect to secured and unsecured property, a 0.753% inflation factor in fiscal year 2011-12 and 2.0% thereafter. See “RISK FACTORS — Reduction in Inflationary Rate.”

Supplemental Assessments: The projections assume no revenues will be realized from supplemental assessments. See “Historical Assessed Value and Tax Revenues” above for historic supplemental revenues.

Transfers and Foreclosures: The projection assumes recent transfers of ownership will add \$86,271,428 in new value to the fiscal year 2011-12 tax roll (transfers occurring from January 1, 2010 through December 31, 2010) and \$7,779,692 in new value to the 2012-13 tax roll for the Project Area (transfers occurring from January 1, 2011 through February 28, 2011) offset, however, by an assumed reduction in assessed value of \$10,016,600 as a result of foreclosures. The projections assume no additional Tax Revenues from transfers or reductions from foreclosures after Fiscal Year 2012-13.

Collections: The projections assume 100% of the amount levied will be collected on an annual basis. See “Historical Assessed Value and Tax Revenues” above for historic collection rates.

Appeals: The projections assume assessed values are reduced in fiscal year 2011-12 as a result of the resolution of pending appeals. The projections do not, however, reflect a reduction in revenues for refunds associated with pending appeals. See “Appeals of Assessed Values” above.

County Collection Charges: For fiscal year 2010-11, the County charged the Agency a collection fee of \$1,063,124 (1.60% of estimated fiscal year 2010-11 gross tax increment revenue). The projection assumes the County will continue to charge the Agency for property tax administration at a rate equal to 1.60% of gross tax increment.

Unitary Taxes: For fiscal year 2010-11, the Agency expects to receive \$70,340 in unitary revenue for the Project Area. The projection assumes the same amount of utility tax revenue will be remitted to the Agency in future years. See “LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS — Unitary Property” below.

Housing Set-Aside: The projection of Tax Revenues assumes Housing Set-Aside will be available to pay 20% of debt service on the 2006 Bonds, but no portion of the debt service on the 2011 Bonds.

Statutory Pass-Through Obligations: The projection of Tax Revenues assumes none of the Agency’s statutory pass-through obligations will be subordinated to debt service on the 2011 Bonds. However, statutory pass-through obligations are net of Housing Set-Aside, which is available to pay up to 20% of debt service on the 2006 Bonds.

SMCCD Agreement. The projection assumes repayment by SMCCD of the Agency advance through fiscal year 2027-28, at which point the statutory pass-through obligation to SMCCD will increase to its full amount. See “THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT -Statutory Pass-Through Requirements.”

TABLE 8
Earthquake Recovery Redevelopment Project
Projection of Tax Revenues
(\$000's Omitted)

Taxable Values ⁽¹⁾	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real Property ⁽²⁾	\$ 10,104,440	\$ 9,586,054	\$ 9,775,538	\$ 9,971,049	\$ 10,170,470	\$10,373,879	\$ 10,581,357	\$ 10,792,984	\$ 11,008,843	\$ 11,229,020
Personal Property ⁽³⁾	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>	<u>325,959</u>
Total Projected Value	10,430,400	9,912,013	10,101,497	10,297,008	10,496,429	10,699,838	10,907,316	11,118,943	11,334,803	11,554,980
Taxable Value over Base	6,575,102	6,056,716	6,246,200	6,441,711	6,641,132	6,844,541	7,052,019	7,263,646	7,479,505	7,699,682
Gross Tax Increment Revenue ⁽⁴⁾	66,006	60,791	62,693	64,655	66,657	68,699	70,781	72,905	75,072	77,282
Unitary Tax Revenue	70	70	<u>70</u>	<u>70</u>	<u>70</u>	<u>70</u>	<u>70</u>	<u>70</u>	<u>70</u>	<u>70</u>
Gross Revenues	66,076	60,862	62,763	64,726	66,727	68,769	70,851	72,976	75,142	77,352
LESS:										
SB 2557 Admin Fee ⁽⁵⁾	(1,063)	(976)	(1,006)	(1,038)	(1,070)	(1,103)	(1,136)	(1,170)	(1,205)	(1,240)
Pass Throughs										
AB 1290 Tax Sharing Tier 1 ⁽⁶⁾	(13,215)	(12,172)	(12,553)	(12,945)	(13,345)	(13,754)	(14,170)	(14,595)	(15,028)	(15,470)
AB 1290 Tax Sharing Tier 2 ⁽⁶⁾	(4,014)	(3,139)	(3,458)	(3,788)	(4,124)	(4,467)	(4,817)	(5,174)	(5,538)	(5,909)
AB 1290 Tax Sharing Tier 3 ⁽⁶⁾	0	0	0	0	0	0	0	0	0	0
Santa Monica CCD Repayment	<u>440</u>	<u>391</u>	<u>409</u>	<u>428</u>	<u>447</u>	<u>187</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Tax Revenues ⁽⁷⁾	48,224	44,966	46,155	47,382	48,634	49,632	50,728	52,036	53,371	54,732
Housing Set-Aside Tax Revenue ⁽⁸⁾	13,215	12,172	12,553	12,945	13,345	13,754	14,170	14,595	15,028	15,470
Non-Housing Set-Aside Tax Revenues	35,009	32,794	33,603	34,437	35,289	35,879	36,558	37,441	38,342	39,262

⁽¹⁾ Taxable values as reported by Los Angeles County, as adjusted.

⁽²⁾ Real property consists of land and improvements. Values are increased for transfer sales (see Table 4) and increase by 0.753% for inflation in 2011-12. Thereafter, values are assumed to increase based on 2% annual growth. Assessed valuations for 2010-11 were reduced by \$22,495,832 for 38 successful appeals not reflected on the 2010-11 roll. Projected value loss from pending appeals is \$246,407,427 in 2011-12.

⁽³⁾ Personal Property is held constant at 2010-11 level.

⁽⁴⁾ Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. The assumed future tax rates will decline to \$1.0037 per \$100 of taxable value through 2034-35 and \$1.00 per \$100 of taxable value thereafter.

⁽⁵⁾ Los Angeles County Administrative charges are actual for 2010-11 and estimated at 1.60% of Gross Revenue thereafter.

⁽⁶⁾ All Taxing Entities receive their shares of 25% of total tax increment revenue net of housing set aside. In addition, after year 10 Fiscal Year 2005-06, Taxing Entities receive 21% of tax revenue of incremental value above the year 10 value net of housing set aside. After year 30 Fiscal Year 2025-26, Taxing Entities receive 14% of tax revenue of incremental value above the year 30 value net of housing set aside.

⁽⁷⁾ Pursuant to the SMCCD Agreement, the Agency receives payment on the advance from the Santa Monica Community College District equal to 52.5% of its share (4.24%) of the AB 1290 Tax Sharing Payment, up to the cumulative amount of \$10,206,823.

⁽⁸⁾ Housing Set Aside Tax Revenue calculated at 20% of Gross Revenue.

Source: HdL Coren & Cone

Estimated Debt Service Coverage

The two succeeding tables show the following:

Table 9A: projected debt service coverage ratios based on (i) estimated non-Housing Set-Aside Tax Revenues available to pay debt service on the 2011 Bonds and (ii) 80% of debt service on the 2006 Series A Bonds.

Table 9B: projected debt service coverage ratios based on (i) estimated Housing Set-Aside available to pay debt service on up to 20% of the debt service on the 2006 Bonds.

TABLE 9A
Earthquake Recovery Redevelopment Project
Estimated Debt Service Coverage Provided by Non-Housing Tax Revenues
(\$000s)

<i>Year</i> ⁽¹⁾	<i>Non-Housing Set-Aside Tax Revenues</i> ⁽²⁾	<i>80% of 2006 Bonds Debt Service</i> ⁽³⁾	<i>2011 Bonds Debt Service</i>	<i>Total Non-Housing Bond Debt Service</i>	<i>Projected Coverage</i> ⁽⁴⁾
2012	\$ 34,640	\$ 3,562	\$ 2,547	\$ 6,109	5.67x
2013	35,486	3,562	2,547	6,109	5.81x
2014	36,358	3,558	2,547	6,106	5.95x
2015	37,248	3,563	2,547	6,110	6.10x
2016	37,665	3,560	2,547	6,107	6.17x
2017	38,551	3,562	2,547	6,109	6.31x
2018	39,475	3,561	2,547	6,109	6.46x
2019	40,416	3,556	2,547	6,103	6.62x
2020	41,377	3,562	2,547	6,110	6.77x
2021	42,357	3,558	2,547	6,106	6.94x
2022	43,357	3,561	2,547	6,109	7.10x
2023	44,376	3,558	2,547	6,105	7.27x
2024	45,416	3,557	2,547	6,104	7.44x
2025	46,477	3,559	2,547	6,106	7.61x
2026	47,559	3,559	2,547	6,106	7.79x
2027	48,365	3,558	2,547	6,105	7.92x
2028	49,188	3,559	2,547	6,107	8.05x
2029	50,027	3,557	2,547	6,105	8.19x
2030	50,883	-	4,697	4,697	10.83x
2031	51,755	-	4,701	4,701	11.01x
2032	52,646	-	4,702	4,702	11.20x
2033	53,554	-	4,699	4,699	11.40x
2034	54,480	-	4,697	4,697	11.60x
2035	55,425	-	4,701	4,701	11.79x
2036	56,189	-	4,700	4,700	11.96x
2037	57,161	-	4,698	4,698	12.17x
2038	58,160	-	4,699	4,699	12.38x
2039	59,179	-	4,697	4,697	12.60x
2040	60,218	-	4,702	4,702	12.81x
2041	61,278	-	4,697	4,697	13.05x
2042	62,360	-	4,702	4,702	13.26x

(1) Tax Revenues are shown on a fiscal year basis (July 1 through June 30) and debt service is shown on a Bond Year basis (July 2 through July 1).

(2) See table entitled "Projection of Tax Revenues".

(3) Fiscal year 2011-12 debt service includes the July 1, 2011 debt service payment on the 2011 Bonds.

(4) In the event Housing Set-Aside was unavailable to pay up to 20% of debt service on the 2011 Bonds but non-Housing Set-Aside Tax Revenues were available for that purpose, the Agency would be obligated to use the non-Housing Set-Aside Tax Revenues to pay the debt service on the 2011 Bonds otherwise payable from Housing Set-Aside (the converse is not true; if non-Housing Set-Aside Tax Revenues were unavailable, Housing Set-Aside could still only be used to pay 20% of debt service). Because Housing Set-Aside is 20% of total tax increment generated in the Project Area, the Agency believes it is unlikely that non-Housing Set-Aside Tax Revenues would be available but Housing Set-Aside would not.

Source: Redevelopment Agency of the City of Santa Monica.

TABLE 9B
Earthquake Recovery Redevelopment Project
Estimated Debt Service Coverage Provided by Housing Set-Aside
(\$000s)

<i>Year</i> ⁽¹⁾	<i>Housing Set-Aside</i> ⁽²⁾	<i>20% of Total 2006 Bonds Debt Service</i>	<i>Projected Coverage</i>
2012	\$ 13,040	\$ 891	14.64x
2013	13,438	890	15.09x
2014	13,848	890	15.57x
2015	14,267	891	16.02x
2016	14,694	890	16.51x
2017	15,129	890	16.99x
2018	15,573	890	17.49x
2019	16,026	889	18.03x
2020	16,488	891	18.51x
2021	16,959	890	19.06x
2022	17,439	890	19.59x
2023	17,930	889	20.16x
2024	18,430	889	20.73x
2025	18,940	890	21.29x
2026	19,460	890	21.87x
2027	19,990	889	22.48x
2028	20,532	890	23.07x
2029	21,084	889	23.71x
2030	21,647	-	-
2031	22,221	-	-
2032	22,807	-	-
2033	23,404	-	-
2034	24,014	-	-
2035	24,636	-	-
2036	25,180	-	-
2037	25,821	-	-
2038	26,478	-	-
2039	27,149	-	-
2040	27,833	-	-
2041	28,530	-	-
2042	29,242	-	-

⁽¹⁾ Tax Revenues are shown on a fiscal year basis (July 1 through June 30) and debt service is shown on a Bond Year basis (July 2 through July 1).

⁽²⁾ See table entitled "Projection of Tax Revenues."

Source: Redevelopment Agency of the City of Santa Monica.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the 2011 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2011 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Reduction in Taxable Value and Tax Revenues

Tax Revenues allocated to the Agency are determined by the amount of incremental taxable value in the Project Area allocable to 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 caused by economic factors beyond the Agency's control, such as a relocation out of the Project Area by one or more major property owners, or the transfer, pursuant to California Revenue and Taxation Code Section 68, of a lower assessed valuation to property within the Project Area by a person displaced by eminent domain or similar proceedings, or the discovery of hazardous substances on a property within the Project Area (see "Hazardous Substances" below) or the complete or partial destruction of such property caused by, among other eventualities, an earthquake (see "Seismic Factors" below), flood or other natural disaster, could cause a reduction in the Tax Revenues securing the 2011 Bonds. Property owners may also appeal to the County Assessor for a reduction of their assessed valuations or the County Assessor could order a blanket reduction in assessed valuations based on then current economic conditions. See "TAX REVENUES — Appeals of Assessed Values."

Any reduction of assessed valuations and the resulting decline in Tax Revenues or the resulting property tax refunds could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the 2011 Bonds.

Concentration of Tax Base

In the Project Area, a significant portion of the assessed value and resulting Tax Revenues is attributable to relatively few assessees. For Fiscal Year 2010-11 the top ten taxable property owners account for 17.75% of the total Project Area value and 28.15% of the total Project Area incremental value. The failure or financial difficulty of one or more of these properties could have significant detrimental impact on the assessed values of such properties and consequently on the amount of Tax Revenues available for payment of the 2011 Bonds. See "THE EARTHQUAKE RECOVERY REDEVELOPMENT PROJECT — Major Taxable Property Owners."

Estimates of Tax Revenues

In estimating the total Tax Revenues to be received by the Agency and available to pay debt service on the 2011 Bonds, the Agency has relied on actual historical Tax Revenues and made certain assumptions with regard to future assessed valuation in the Project Area, future tax rates and the percentage of taxes collected. See "TAX REVENUES — Estimated Debt Service Coverage." The Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and/or the tax rates are less than expected, the total Tax Revenues available to pay debt service on the 2011 Bonds will be reduced. Such reduced Tax Revenues may be insufficient to provide for the payment of debt service on the 2011 Bonds.

Reduction in Inflationary Rate

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

Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation six times: in fiscal year 1983-84, 1%; in fiscal year 1995-96, 1.19%; in fiscal year 1996-97, 1.11%; in fiscal year 1999-00, 1.85%; in fiscal year 2004-05, 1.867% and in fiscal year 2009-10, 0.99763%.

The State mandated a 0.99763% inflation adjustment for fiscal year 2010-11, and the projections of Tax Revenues assume a 0.753% inflation factor will be applied in fiscal year 2011-12 and a 2% inflation factor will be applied in fiscal years commencing with fiscal year 2011-12. The Agency is unable to predict if any adjustments to the full cash value base of real property within the Project Area, whether an increase or a reduction, will be realized in the future.

Levy and Collection

The Agency does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Agency to repay the 2011 Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency's ability to make timely debt service payments. Because the County has not adopted the Teeter Plan, the Agency's tax increment revenues reflect actual collections rather than the amount levied. See "TAX REVENUES — Historical Assessed Value and Tax Revenues." Further, collection and property taxes by the County, and the ability of the County to timely reduce the lien and delinquent unpaid property taxes, may be limited or delayed by bankruptcy, insolvency or other laws affecting creditors' rights, or by state laws relating to judicial foreclosure.

Risks Associated With Parity Debt

As described in "SECURITY FOR THE 2011 BONDS — Parity Debt," the Agency may issue or incur obligations payable from Tax Revenues on a parity with its pledge of Tax Revenues to payment of debt service on the 2011 Bonds. The potential for such additional obligations increases the risks associated with the Agency's payment of debt service on the 2011 Bonds in the event of a decrease in the Agency's collection of Tax Revenues.

Bankruptcy Risks

The enforceability of the rights and remedies of the owners of the 2011 Bonds and the obligations of the Agency may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2011 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

State Budget and SERAF

In connection with its approval of the budget for the 1992-93, 1993-94, 1994-95, 2002-03, 2003- 04, reallocated funds from redevelopment agencies to school districts by shifting a portion of each agency's tax increment, net of amounts due to other taxing agencies, to school districts for such fiscal years for deposit in the Education Revenue Augmentation Fund ("ERAF"). The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment project areas on a collective basis, and was not allocated separately to individual redevelopment project areas.

In 2008, the State Legislature adopted, and the Governor of the State signed, legislation, Chapter 751, Statutes 2008 (AB 1389) ("AB 1389"), that among other things required redevelopment agencies to pay into ERAF in Fiscal Year 2008-09 prior to May 10, 2009, an aggregate amount of \$350 million, of which the

Agency was to pay approximately \$4.3 million. Such payment obligations were to be subordinate to payments on bonds secured by tax increment revenues. However, on April 30, 2009, a California superior court in *California Redevelopment Association v. Genest* (County of Sacramento) (Case No. 34-2008-00028334) held that such required payment into ERAF violated the California constitution and invalidated and enjoined the operation of the section in AB 1389 requiring such payment. On September 23, 2009, the State filed an Abandonment of Appeal, abandoning its appeal of the decision of the superior court.

In connection with various legislation related to the State's Fiscal Year 2009-10 budget, in late July 2009, the State legislature adopted, and the Governor of the State signed, Chapter 21, Statutes of 2009-10 Fourth Extraordinary Session (AB 26). Such legislation was subsequently amended in November 2009 by Chapter 652, Statutes of 2009 (SB 68) (as amended, the "2009 SERAF Legislation").

The 2009 SERAF Legislation mandates that redevelopment agencies in the State make deposits to the Supplemental Educational Revenue Augmentation Fund ("SERAF") that is established in each county treasury throughout the State the aggregate amounts of \$1.7 billion for Fiscal Year 2009-10, which were due prior to May 10, 2010, and \$350 million for Fiscal Year 2010-11, which are due prior to May 10, 2011.

On May 10, 2010, the Agency deposited into SERAF the amount of \$20,883,384 as its SERAF payment for Fiscal Year 2009-10 (the "Agency 2009-10 SERAF Amount"). On May 10, 2011, the Agency deposited into SERAF the amount of \$4,299,520 as its SERAF payment for Fiscal Year 2010-11 (the "Agency 2010-11 SERAF Amount").

Pursuant to the 2009 SERAF Legislation, redevelopment agencies may use any funds that are legally available and not legally obligated for other uses, including reserve funds, proceeds of land sales, proceeds of bonds or other indebtedness, lease revenues, interest and other earned income. Such legislation also provides that redevelopment agencies may borrow from the amounts required to be allocated to their Low and Moderate Income Housing Funds and that to make payments of their required Fiscal Year 2009-10 SERAF payments only (not 2010-11 SERAF payments), redevelopment agencies also may borrow from their Low and Moderate Income Housing Funds.

The Agency paid the Agency 2009-10 SERAF Amount and the 2010-11 SERAF Amount from available funds without borrowing funds from the Agency's Low and Moderate Income Housing Fund.

On May 4, 2010, a State superior court, in *California Redevelopment Association v. Michael C. Genest* (County of Sacramento) (Case No. 34-2009-80000359), a class action case filed on behalf of all California redevelopment agencies, upheld the 2009 SERAF Legislation to constitutional challenge (the "2009 SERAF Litigation"). The challengers to the 2009 SERAF Legislation have appealed the superior court's decision. The Agency cannot predict the outcome of the 2009 SERAF Litigation.

The 2009 SERAF Legislation also added a provision to the Redevelopment Law to provide that when a redevelopment agency is required pursuant to the 2009 SERAF Legislation to make a payment to the county auditor for deposit in the county SERAF and such agency has allocated the full amount of the payment, the legislative body may amend a redevelopment plan to extend by one year the time limits on the effectiveness of the plan and the repayment of indebtedness (the "SERAF Extension"). Under the Redevelopment Law, the SERAF Extension also has the effect of extending by one year the time limit to receive property taxes.

On November 2, 2010, the voters of the State approved a ballot initiative known as Proposition 22, pursuant to which the State is prohibited from shifting, taking, borrowing or restricting the use of tax revenues dedicated by law to, among other things, funding redevelopment agencies and other local government services. Although the passage of Proposition 22 will have no impact upon the Agency's obligation to pay the Agency 2011 SERAF Amount, the State Legislative Analyst's Office (the "LAO") has stated that the measure prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. No assurance can be provided that Proposition 22 will be implemented as contemplated by the LAO.

In addition, Proposition 22 is subject to interpretation by the courts and there can be no assurance that the measure will not be challenged by the State or other parties or repealed by the voters of the State in the future.

Governor's Proposal to Eliminate Redevelopment

On December 6, 2010, Governor Schwarzenegger called an emergency session of the Legislature to address the \$6.1 billion projected deficit for fiscal year 2010-11. During budget briefings held in December 2010, then Governor elect Jerry Brown announced that the deficit between now and June 30, 2012 had likely grown from the \$25.1 billion reported in the Fiscal Outlook Report to approximately \$28 billion. On January 3, 2011, Jerry Brown was sworn in as Governor.

On January 10, 2011, the Governor released his proposed budget for fiscal year 2011-12 ("Proposed Budget"). The Proposed Budget is designed to address an estimated budget shortfall of \$25.4 billion in the fiscal year 2011-12 California State Budget. The budget shortfall consists of an \$8.2 billion projected deficit for fiscal year 2010-11 and a \$17.2 billion gap between projected revenues and spending in fiscal year 2011-12. The Governor's proposal includes approximately \$12.5 billion in budget cuts, \$12 billion in tax extensions and changes, and \$1.9 billion in other solutions. The Governor is calling for a statewide special election in June to extend for five more years tax measures currently set to expire.

The Proposed Budget proposes elimination of the current funding mechanism for redevelopment agencies (the "RDA Provisions"), although only limited details are provided for such a far-reaching proposal.

The RDA Provisions, if adopted, would prohibit existing agencies from creating new contracts or obligations effective upon enactment of urgency legislation. By July 1, existing agencies would be disestablished and successor local agencies would be required to use the tax increment revenues that redevelopment agencies would otherwise have received to retire redevelopment agency debts and certain contractual obligations "in accordance with existing payment schedules." The RDA Provisions would divert an estimated \$1.7 billion in fiscal year 2011-12 to offset State General Fund costs for Medi-Cal and trial courts. An additional estimated \$210 million would be distributed on a one-time basis to cities, counties, and special districts proportionate to their current share of the countywide property tax.

The RDA Provisions propose that, after fiscal year 2011-12, the money available after payment of the redevelopment agency debt and contractual obligations would be distributed to schools, counties, cities, and non-enterprise special districts for general uses.

As to Low and Moderate Income Housing Fund balances, the Proposed Budget provides that amounts in the redevelopment agency's balances reserved for low-moderate income housing would be shifted to local housing authorities for low and moderate income housing.

In lieu of redevelopment, the Proposed Budget proposes a new financing mechanism for economic development. Specifically, the Proposed Budget proposes that the Constitution be amended to provide for 55% voter approval for limited tax increases and bonding against local revenues for development projects such as are currently done by redevelopment agencies. Voters in each affected jurisdiction would be required to approve use of their tax revenues for these purposes. In a statement accompanying release of the Proposed Budget, State Finance Director Ana Matosantos indicated that the new financing mechanism may be included in a proposal following approval of the Proposed Budget, possibly in 2012.

Implementation of the Proposed Budget, including the RDA Provisions, will require implementing legislation by the Legislature and perhaps voter approval as to certain material elements and may include terms which are not yet proposed which are material to the Agency and the Bonds. The Agency cannot predict the ultimate form of such legislation, if any is adopted. Elements of the RDA Provisions, including the economic development program authorization, contemplate voter approval through the initiative process. It is possible that Proposition 22, which amended the State Constitution to prohibit state diversion of redevelopment agency

revenues generally, will affect the State's ability to implement the RDA Provisions. It is possible that the Governor and the Legislature may seek voter approval of changes to the terms of Proposition 22 that are in conflict with the Proposed Budget, including the RDA Provisions. The Agency cannot predict the timing, terms or ultimate implementation of any such final legislation or voter initiative measures, or the impact on the Agency or the Bonds of any proposed, interim or final legislative and constitutional changes which may be adopted arising out of the Proposed Budget.

The LAO released its Overview of the Governor's Budget ("LAO Overview") on January 12, 2011. As it relates to the RDA Provisions, the LAO Overview suggests the proposal has merit "but faces considerable implementation issues." The LAO Overview notes that "the administration's plan will require considerable work by the Legislature to sort through many legal, financial and policy issues. Several voter-approved constitutional measures, for example, constrain the State's authority to redirect redevelopment funds, use property tax revenues to pay for State programs, or impose increased costs on local agencies. In addition, the administration's plan does not address many related issues, such as clarifying the future financial responsibility for low- and moderate- income housing (currently, a redevelopment program)." The LAO suggests that the Proposed Budget may understate the debt of redevelopment agencies and therefore the availability of additional revenues to assist with the State budget issues. Finally, the LAO Overview recommends that the Legislature pass urgency legislation as soon as possible prohibiting redevelopment agencies, during the period of legislative review, from taking actions that increase their debt in light of the considerable work that will be required of the Legislature to develop the statutory measures to implement the RDA Provisions.

Draft legislation implementing this proposal was released by the Department of Finance of the State on February 23, 2011 (the "Proposed Legislation"). On March 3, 2011, after making certain revisions to the Proposed Budget, the Joint Budget Committee of the California Legislature voted six to four in favor of the Proposed Budget (as revised), which includes the Proposed Legislation. The Proposed Legislation has been introduced and is currently embodied in Assembly Bill 101 and Senate Bill 77, as amended on March 15, 2011. The Agency expects it may be taken up by the Legislature soon. No assurance can be given whether or not the Proposed Legislation will be enacted in its present form, or at all.

The Proposed Legislation is styled as a bill providing for appropriations related to the budget bill, and states that it would become effective immediately upon passage and signature of the Governor. It is possible that, if the Proposed Legislation as a part of a budget package passed by the Legislature, could be passed with majority vote approval in each house of the State Legislature rather than with two-thirds approval and become effective immediately. The Proposed Legislation makes it clear that it would not be effective until the date of enactment and would not be retroactive.

The Proposed Legislation, if enacted in its present form, would prohibit redevelopment agencies from, among other things:

- incurring new or expanding existing monetary or legal obligations unless specifically provided for in the Proposed Legislation. These prohibitions include the issuance of bonds and other obligations, and refinancing or restructuring existing indebtedness (except in limited circumstances);
- entering into new contracts for redevelopment activities;
- modifying terms and conditions of existing agreements, obligations or commitments; and
- disposing of assets.

The Proposed Legislation would establish successor agencies (in the case of the Commission, the successor agency would be the City under the current form of the Proposed Legislation) to administer each redevelopment agency's existing "enforceable obligations" and would establish a series of special funds to

effectuate the payments of such obligations and administer the transfer of property taxes to other local entities and the disposition of an agency's other assets such as real property and cash. As defined in the Proposed Legislation, "enforceable obligations" include bonds, debt service on bonds, reserve set-asides and other payments required under the indenture governing the issuance of the bonds. Under the Proposed Legislation, the county or city that authorized the creation of a redevelopment agency may elect to retain the housing assets and functions previously performed by the redevelopment agency or may designate its local housing authority to perform such functions. If a county or city elects to retain the responsibility for performing housing functions previously performed by a redevelopment agency, all rights, powers, assets, liabilities, duties, and obligations associated with the housing activities of the agency, along with any amounts in the Low and Moderate Income Housing Fund shall be transferred to such city, or county, or city and county. Under the Proposed Legislation, future functions of the Agency or the successor agency with respect to the affairs of the Agency are subject to oversight by an oversight committee (described below).

The Proposed Legislation changes the mechanism by which property tax revenue from a redevelopment project area is allocated and accounted for, putting the responsibility for paying debt service on obligations, including the Bonds, in the hands of the county auditor-controller rather than the redevelopment agency or a successor agency. The Proposed Legislation does protect the rights of the owners of bonds to the pledged tax increment revenues, stating that it is the intent of the Proposed Legislation to not affect either the pledge, the legal existence of the pledge, or "the stream of equivalent revenues available to make good on that pledge;" however, the county auditor-controller, and the successor agency established to take over the redevelopment agency's powers and obligations, will be the entity responsible for making sure those rights are protected and that lien is honored.

Notwithstanding the foregoing, the Proposed Legislation sets forth a priority and timing for allocation of moneys from a "Redevelopment Property Tax Trust Fund" in Fiscal Year 2011- 12, which provides for a county auditor-controller to allocate moneys in a specified priority, as follows:

First, to each local agency and school entity in an amount equal to what would have been received pursuant to certain specified state law provisions or pass-through agreements that would be in force in 2011-12 but for operation of the Proposed Legislation, if the redevelopment agency were in existence without reference to such payments being made after needs for "enforceable obligations" are taken into account (such payments to be made no later than January 16, 2012, and June 1, 2012;

Second, to the Public Health and Safety Fund in an amount not to exceed one billion, seven hundred million dollars (\$1,700,000,000) on a statewide basis specified by the Director of the Department of Finance from the amounts deposited in the Redevelopment Property Tax Trust Fund comprised of the revenues that would otherwise have been allocated to each redevelopment agency, but for the operation of the Proposed Legislation after needs for enforceable obligations and pass through amounts are taken into account (such transfers to occur on January 16, 2012 and June 1, 2012, or any later date specified by Director of Finance); and

Third, on January 16, 2012 and June 1, 2012, to each successor agencies for payments listed in its recognized obligation payment schedule for the six-month fiscal period beginning January 1 or July 1, 2012, in the following priority order: (A) debt service payments scheduled to be made for tax allocation bonds, (B) payments scheduled to be made on revenue bonds, but only to the extent the revenues pledged for them are insufficient to make the payments and only where the agency's tax increment revenues were also pledged for the repayment of such bonds, and (C) payments scheduled for other debts and obligations listed in the recognized obligation payment schedule that are required to be paid from former tax increment revenue;

Fourth, on January 16, 2012 and June 1, 2012, to each successor agency for administrative costs set forth in an approved administrative budget for those payments required to be paid from former tax increment revenues; and

Fifth, on January 16, 2012, and June 1, 2012, any moneys remaining in the Redevelopment Tax Trust Fund after the payments and transfers authorized by paragraphs (1) through (4), inclusive, shall be distributed to certain local agencies and school entities. If a successor agency is other than the agency that formed a redevelopment agency, the share that would have been allocated to that agency shall instead be allocated to the agency that is the successor agency. If a local agency other than the county auditor-controller has accepted responsibility for administering the Public Health and Safety Fund in a county, the county share shall be allocated to that local agency.

If the successor agency reports, no later than December 1, 2011 and May 1, 2012, to the county auditor-controller that the total amount available to the successor agency from the Redevelopment Property Tax Trust Fund allocation to that successor agency's Redevelopment Obligation Retirement Fund, from other funds transferred from the each redevelopment agency, and from funds that have or will become available through asset sales and all redevelopment operations are insufficient to fund the payments required in the next six month fiscal period, the county auditor-controller shall notify the State Controller and the Department of Finance no later than December 10, 2011 and May 10, 2012. The county auditor shall verify whether the successor agency will have sufficient funds from which to service debts according to the schedule and shall report the findings to the state Controller. If the State Controller concurs that there are insufficient funds to pay required debt service, the amount of such deficiency shall be deducted first from the amount remaining to be distributed to taxing entities pursuant to *Fifth* above, and if that amount is exhausted, from amounts available for distribution for administrative costs in *Fourth* and *Third* above from amounts available for allocation to the Public Health and Safety Fund. If an agency made pass through payment obligations subordinate to debt service payments required for enforceable obligations, funds for servicing bond debt may be deducted from the amounts for pass-through payments under *First* above, if the amounts remaining to be distributed to taxing entities pursuant to *Fifth* above the amounts available for distribution for administrative costs in *Fourth* above and the amounts available for allocation to the Public Health and Safety Fund have all been exhausted.

The Proposed Legislation provides that the successor agency shall make payments for enforceable obligations using tax increment funds only when no other funding source is available or when payment from current property tax revenues is required by an enforceable obligation.

Successor agencies are required to prepare draft recognized obligation payment schedules for the enforceable obligations of the former redevelopment agency and such recognized obligation payment schedules must be certified by an external auditor, approved by the oversight committee, and submitted to the county auditor-controller, the State Controller's Office and the Department of Finance.

The specific effects of the Proposed Legislation, if enacted in its present form, on the overall administration of the Bonds and the related documents, including the Indentures and the 2011 Loan Agreements and any continuing disclosure certificate, cannot be determined at this time.

The Proposed Legislation also proposes the establishment of a seven member oversight committee to monitor and approve the activities of each successor agency. As currently drafted in the case of the Agency, the oversight committee board may have one member appointed by the City, and the remaining members are to be selected by the applicable county board of supervisors, the county superintendent of education, the community college district, school district and the largest non-enterprise special district in the territory of the former redevelopment agency (or by the Governor if positions are not otherwise filled). The result of this make up of the oversight committee is that its actions may not be in the best interest of, and may be adverse to, the Agency or the City and the owners of the Bonds.

The Proposed Legislation lengthens the statute of limitations to challenge various actions by the Agency taken after January 1, 2011, including the issuance of the Bonds, from 90 days to two years and requires audits of each redevelopment agency. While the Agency does not believe there is any defect in the proceedings for the issuance of the Bonds that could give rise to a successful challenge, and Bond Counsel is

providing its opinions with respect to the Bonds as set forth in APPENDIX E — “Form of Bond Counsel Final Opinion,” due to the heightened scrutiny that may occur with respect to redevelopment agency activities, there could be an increased risk of a legal challenge relating to or affecting the proceedings for the Bonds and any such challenge could affect the market price of the Bonds.

Interpretation of the wording and effect of the Proposed Legislation is subject to varying opinions. It appears that if enacted as drafted in its present form and if found to be legal and enforceable by the courts in the event of a court challenge, the legislation will include provisions having the effect of barring redevelopment agencies from entering into certain contracts and, in some circumstances, expending funds after the effective date of the legislation. These provisions, as well as possibly other provisions, may limit the Agency’s future ability to spend the proceeds of the Bonds. The existence and/or extent of such limitations cannot be determined at this time. The Agency has covenanted in the Indenture to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2011 Bonds.

The Proposed Legislation implements its intended purposes through a complex series of provisions, and appears to contain several inconsistencies and drafting problems which will likely require revision, including, but not limited to, the priority of payments from the Redevelopment Property Tax Trust Fund. The Agency cannot predict what changes may be made to the Proposed Legislation or whether the Proposed Legislation in any form will be enacted.

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

http://www.dof.ca.gov/budgeting/trailer_bill_language/financial_research_and_local_government/documents/502%20RDA%20Legislation%202-23p.pdf

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

It is possible that Proposition 22, which amended the State Constitution to prohibit state diversion of redevelopment agency revenues generally, will affect the State’s ability to implement the RDA Provisions. It is possible that the Governor and the Legislature may seek voter approval of changes to the terms of Proposition 22 that are in conflict with the Proposed Budget, including the RDA Provisions and/or the Proposed Legislation.

The Agency cannot predict the timing, terms or ultimate implementation of any such final legislation or voter initiative measures, or the impact on the Agency or the Bonds of any proposed, interim or final legislative and constitutional changes which may be adopted arising out of the Proposed Budget.

There are a variety of ways in which the Proposed Budget, the RDA Provisions and/or the Proposed Legislation, if adopted, could impact the Agency and the Bonds, although the Agency is not able to predict the full variety or extent of these impacts, and the impacts will vary greatly depending on the final terms of laws adopted to implement the Proposed Budget and the RDA Provisions:

- (i) The Proposed Legislation, if adopted, could impact the Agency’s activities and programs generally and could reduce or eliminate its fund balances and staffing.
- (ii) The Proposed Legislation, if adopted, could affect the Agency’s compliance with and performance under existing contracts and obligations.
- (iii) Subject to certain “contract clause” protections described below, the Proposed Legislation could affect the Agency’s compliance with and performance under the terms of the 2011

Indentures, the 2011 Loan Agreements and the Bonds. These impacts could relate to the amount or availability of property tax revenue, tax increment revenues or Tax Revenues for the Bonds and other uses, the manner of application of Tax Revenues to debt service, flow of funds, use of Bond proceeds to fund new projects, compliance with 2011 Indentures and 2011 Loan Agreements covenants, continuing disclosure and other matters.

(iv) Pending final adoption of laws to implement the RDA Provisions, interim proposals could affect the activities of the Agency and the value of the Bonds.

(v) The Proposed Legislation if adopted and implemented, most significantly the elimination of redevelopment agencies and the redeployment of tax increment revenues affecting redevelopment agencies, would almost certainly raise legal and practical issues, some of which may be subject to litigation and ultimate resolution in the courts, or subsequent legislative action. These issues could affect the Agency and its compliance with the terms of the 2011 Indentures and the Bonds, and resolution of these issues could involve expense and delay or modification of certain of the rights of Bondholders in ways that the Agency cannot predict.

The Agency believes that constitutional protections against the impairment of contracts will prevent the proposed actions in the RDA Provisions and the Proposed Legislation from adversely affecting the validity of the Bonds or the Agency's pledge of Tax Revenues to secure the payment of the Bonds and, in this vein, the RDA Provisions and the Proposed Legislation purport to provide for the payments by successor entities of existing redevelopment agencies' debts and contractual obligations such as the Bonds.

Article I, section 10 of the United States Constitution provides that "No state shall ... pass any ... law impairing the obligation of contracts." Article I, section 9 of the State Constitution provides that a "law impairing the obligation of contracts may not be passed." Each of these provisions is generally referred to as a "contracts clause." Federal courts have applied a fact-based three-part test to determine whether a state law violates the federal contracts clause. In general, the test compares any impairment against the significant and legitimate public purpose behind the state law; there is no absolute prohibition against impairment.

The Agency cannot predict the applicable scope of "contract clause" protections to the Bonds and the RDA Provisions as they may ultimately be implemented. Protection of the rights of Bondholders and enforcement of the terms of the Indenture, if necessary, could involve expense and delay including with respect to the determination of the applicable scope of the "contract clause" provisions. Should legislation be introduced adversely impacting the Agency's receipt of tax increment revenues or the Agency's ability to issue the Bonds or impose additional limitations or burdens on the Agency or the City by reason of the issuance of the Bonds, the Agency and the Underwriters have the right under the bond purchase agreements to not proceed in issuing or purchasing the Bonds.

After execution by the Agency, the Authority and the Underwriters of the bond purchase agreement relating to the Bonds, the Agency and the Underwriters have the right under the bond purchase agreements to not proceed in issuing or purchasing the Bonds if the Agency determines that legislation has been introduced or proposals made by the Governor of the State or if legislation is enacted which would impose additional materially adverse limitations or burdens on the Agency or the City by reason of the issuance of the Bonds or which purport to prohibit the issuance of the Bonds.

The Agency cannot predict what actions will be taken in the future by the voters of the State, the State Legislature and the Governor to deal with changing State revenues and expenditures and the repercussions they may have on the current fiscal year State Budget, the Proposed Budget and future State budgets, or their impact on the Agency. These developments at the State level, whether related to the Proposed Budget or not, may, in turn, affect local governments and agencies, including the Agency. Even if the proposals affecting the Agency in the Proposed Budget are not adopted, the State Legislature may adopt other legislation from time to time requiring redevelopment agencies to make other payments to ERAF or SERAF or to make other

payments. The impact that current and future State fiscal shortfalls will have on the Agency is unknown at this time. In prior years, the State has experienced budgetary difficulties and as in the Proposed Budget, balanced its budget by requiring local political subdivisions, such as the County, the City and the Agency, to fund certain costs previously borne by the State.

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

Seismic Factors

The City, like most regions that border the Pacific Ocean, is an area of significant seismic activity and, therefore, is subject to potentially destructive earthquakes. The San Andreas fault is the major active fault in the State, and is approximately 40 miles from the City. Several active or potentially active faults are located closer to the City, including the Santa Monica, the San Jacinto, the Malibu Coast, and the Newport-Inglewood faults. According to the City of Santa Monica Local Hazard Mitigation Plan (2006), seismologists believe that a 6.0 earthquake on the Newport-Inglewood fault would cause more damage than a larger quake on the San Andreas fault.

On January 17, 1994, a 6.8 magnitude earthquake occurred in Northridge, California which resulted in 450 injuries and 3 fatalities in the City. The City sustained damage to 530 buildings, including 2,300 housing units and the temporary shutdown of St. John's Hospital. The 1994 Northridge Earthquake was the precipitating factor to formation of the Project Area. Over the last two decades, significant earthquake mapping and mitigation measures have been completed and public awareness has improved. City officials implemented measures to expedite recovery efforts, including streamlined permitting and fee waivers, which allowed most damaged buildings to be repaired within five years of the earthquake. Federal funds (\$93.4 million) were used to complete necessary repairs and retrofit buildings to reduce effects of future earthquakes. In the Earthquake Recovery Redevelopment Project Area, formed following the Northridge earthquake, the following key improvements have been made: seismic retrofitting was completed on public parking structures 2, 4, 7, and 8; Santa Monica College's Liberal Arts Building was reconstructed with Redevelopment Agency assistance; portions of St. Johns Health Center are being reconstructed in phases to be able to remain operational during high magnitude earthquakes; and the Santa Monica UCLA Hospital Medical Center, which also suffered damage in the earthquake, has undergone improvements.

The City is susceptible to tsunami and seiche hazards. A tsunami is a sea wave generated by a submarine earthquake, landslide or volcanic eruption. According to the Santa Monica Local Hazard Mitigation Plan (2006), Santa Monica's tsunami threat is considered low to moderate. A seiche is another form of earthquake-or landslide-induced wave or oscillation that can be generated in an enclosed body of water such as a lagoon or harbor. Tsunamis and seiches have both caused damage in the Santa Monica area.

The occurrence of severe seismic activity in the City could result in substantial damage to property located in the Project Area, and could lead to successful appeals for reduction of assessed values of such property. Such a reduction of assessed valuations could result in a reduction of the Tax Revenues that secure the 2011 Bonds.

Hazardous Substances

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

Investment Funds

All funds held by the Trustee under the Indenture and all funds held by the Agency under the Indenture [including the Special Fund, into which all Tax Revenues are initially deposited, are required to be invested in Permitted Investments] as provided in the Indenture. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or the Special Fund could have a material adverse effect on the security for the Bonds.

Bankruptcy and Foreclosure

The rights of the Owners of the Bonds and the enforceability of the obligation to make payments on the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights under currently existing law or laws enacted in the future and may also be subject to the exercise of judicial discretion under certain circumstances. The opinion of Bond Counsel as to the enforceability of the obligation to make payments on the Bonds will be qualified as to bankruptcy and such other legal events. See APPENDIX E — "Form of Bond Counsel Final Opinion."

Further, the payment of the tax increment revenues and the ability of the County to timely foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. Any delay in prosecuting superior court foreclosure proceedings would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent tax installments not being paid in full. These risks may be greater where, as here, the Project Area has a high concentration of major taxpayers.

Changes in the Law

In addition to the other limitations on tax revenues described herein under "LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS," the California electorate or Legislature could adopt a constitutional or legislative change that decreases property taxes or the amount thereof allocable to the Agency with the effect of reducing Tax Revenues payable to the Agency. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce such Tax Revenues and adversely affect the security for the Bonds.

Bonds Are Limited Obligations

The Bonds are special, limited obligations of the Agency and are payable solely from and secured by Tax Revenues of the Agency under the Indenture and as such are not debt of the City, the State or any of their political subdivisions other than the Agency, and none of the City, the State or any of their political subdivisions other than the Agency is liable for the payment thereof. The principal of, and premium, if any, and interest on, the Bonds are payable solely from Tax Revenues allocated to the Agency from the Project

Area and certain other funds pledged therefor under the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. See “SECURITY FOR THE BONDS.” No Owner of the Bonds may compel exercise of the taxing power of the State, the City or any of their political subdivisions to pay the principal of, or premium, if any, or interest due on, the Bonds.

Limited Recourse on Default

If the Agency defaults on its obligations to make payments with respect to the Bonds, the Trustee has the right to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the Trustee will have sufficient moneys available for payment of the Bonds.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2011 Bonds, or, if a secondary market exists, that the 2011 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed under the caption “OTHER MATTERS — Tax Matters,” interest on the 2011 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2011 Bonds were issued as a result of future acts or omissions of the Agency in violation of its covenants contained in the Indenture. Should such an event of taxability occur, the 2011 Bonds are not subject to special redemption or any increase in interest rate and may remain outstanding until maturity.

LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS

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

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend Article XIII A. Proposition 58 amends Article XIII A to provide that the terms “purchased” and “change of ownership,” for purposes of determining full cash value

of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children.

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

Challenges to Article XIII A

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

Implementing Legislation

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A.

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.

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

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 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 percent 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 declared in default 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 1.5 percent per month to the time of redemption and a \$15 Redemption Fee. If taxes are unpaid for a period of five years or more, the property is recorded in a "Power to Sell" status and is subject to sale by the county tax collector. A 10 percent penalty also applies to the delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1-1/2 percent per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

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 January 1. Unsecured taxes enrolled by July 31, if unpaid, are delinquent August 31 at 5:00 p.m. and are subject to penalty; unsecured taxes added to roll after July 31, if unpaid, are delinquent on the last day of the month succeeding the month of enrollment.

Disbursement to the Agency. The County disburses tax increment revenue to all redevelopment agencies from November through August with approximately 35% of secured revenues apportioned by the end of December and a total of 75% of the secured revenues by the end of the following April. Unsecured revenues are disbursed in November, March and August of each fiscal year. The Agency receives the final distributions of secured revenues in July and August. The November payment consists of an 80% advance on the total unsecured levy.

Supplemental Assessments. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. The statute may provide increased revenue to redevelopment agencies to the extent that supplemental assessments as a result of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the lien date. To the extent such supplemental assessments occur within the Project Area, Tax Revenues may increase. The projection of Tax Revenues assumes no revenue from supplemental assessments in future years. See "TAX REVENUES — Projected Tax Revenues".

Tax Collection Fees. SB 2557 (Chapter 466, Statutes of 1990) permits county auditors to withhold a portion of annual tax revenues for the recovery of county charges related to property tax administration services to cities in an amount equal to their property tax administration costs proportionately attributable to cities. Subsequent legislation specifically includes redevelopment agencies among the entities which are subject to a property tax administration charge. The projection of Tax Revenues assumes the County will continue to charge the Agency an annual collection fee of [1.60]% of gross tax increment revenue. See "TAX REVENUES — Projected Tax Revenues".

Unitary Property

AB 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with the fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies and herein defined as "Unitary Property") is to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated

to each tax rate area on a pro-rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro-rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property has been changed to January 1. Railroad property will continue to be assessed and revenues allocated to all tax rate areas where the railroad property is sited.

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of the project area. For fiscal year 2010-11, the County is expected to remit \$[70,340] unitary revenue to the Agency for the Project Area. The projection of Tax Revenues assumes the County will remit a like amount of utility tax revenue to the Agency in future years. See "TAX REVENUES — Projected Tax Revenues".

Appropriations Limitations - Article XIII B

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

Effective November 30, 1980, the California Legislature added Section 33678 to the Redevelopment Law which provided that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness will 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 will 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, including Section 33678 of the Redevelopment Law.

Statement of Indebtedness

Under the Law, the Agency must file with the County Auditor a statement of indebtedness for the Project Area by October 1 each year. As described below, the statement of indebtedness controls the amount of tax increment revenue that will be paid to the Agency in each fiscal year.

Each statement of indebtedness is filed on a form prescribed by the State Controller and specifies, among other things: (a) the total amount of principal and interest payable on all loans, advances or indebtedness (including the 2011 Bonds and any Parity Debt) (the "Debt"), both over the life of the Debt and for the current fiscal year, and (b) the amount of "available revenue" as of the end of the previous fiscal year. "Available revenue" is calculated by subtracting the total payments on Debt during the previous fiscal year from the total revenues (both tax increment revenue and other revenues) received during the previous fiscal year, plus any carry-forward from the prior fiscal year. Available revenue includes amounts held by the Agency and irrevocably pledged to the payment of Debt, but does not include Housing Set-Aside.

The County Auditor may only pay tax increment revenue to the Agency in any fiscal year to the extent that the total remaining principal and interest on all Debt exceeds the amount of available revenues as shown on the statement of indebtedness.

The statement of indebtedness constitutes prima facie evidence of the debt of the Agency; however, the County Auditor may dispute the statement of indebtedness in certain cases. Section 33675 provides for certain time limits controlling any dispute of the statement of indebtedness, and allows for Superior Court determination of such dispute in the event it cannot be resolved by the Agency and the County Auditor. Any such action may only challenge the amount of the Debt as shown on the statement, and not the validity of any Debt or related contract or the expenditures related thereto. No challenge can be made to payments to a trustee

in connection with a bond issue or payments to a public agency in connection with payments by that public agency with respect to a lease or bond issue.

The Agency's October 1, 2010 Statement of Indebtedness included outstanding obligations sufficient to collect all of the tax increment currently generated in the Project Area for Fiscal Year 2010-11. The Agency expects that its future Statement of Indebtedness will also include outstanding obligations sufficient to collect all of the tax increment generated in the Project Area during the applicable fiscal year.

Proposition 218

On November 5, 1996, California voters approved Proposition 218 — Voter Approval for Local Government Taxes — Limitation on Fees, Assessments, and Charges — Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Tax Revenues securing the 2011 Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which were limited by Proposition 218.

Future Initiatives

Article XIII A, Article XIII B and certain other propositions affecting property tax levies were each adopted as measures which 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.

OTHER MATTERS

Litigation

The Agency will represent on the Closing Date that no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending for which the Agency has been served, or, to the best of its knowledge after due inquiry, threatened-

(i) in any way questioning the corporate existence of the Agency or the titles of the officers of the Agency to their respective offices;

(ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the 2011 Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the 2011 Bonds, or in any way contesting or affecting the validity of the 2011 Bonds or the related legal documents or the consummation of the transactions contemplated thereby or hereby, or contesting the exclusion of the interest on the 2011 Bonds from taxation or contesting the powers of the Agency or its authority to issue the 2011 Bonds;

(iii) which may result in any material adverse change relating to the Agency; or

(iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and

(v) there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) above.

Ratings

Standard & Poor's has assigned its municipal bond rating of “__” to the 2011 Bonds. Fitch Ratings Group has assigned its municipal bond rating of “__” to the 2011 Bonds. The ratings issued reflect only the view of the applicable rating agency, and any explanation of the significance of such ratings should be obtained from the applicable rating agency. There is no assurance that such ratings will be retained for any given period of time or that they will not be revised downward or withdrawn entirely by the applicable rating agency if, in the judgment of the applicable rating agency, circumstances so warrant. Any such downward revision or withdrawal of any ratings obtained may have an adverse effect on the market price of the 2011 Bonds.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2011 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, Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the 2011 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2011 Bonds is exempt from California personal income tax.

In the opinion of Bond Counsel, the difference between the issue price of a 2011 Bond (the first price at which a substantial amount of the 2011 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2011 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2011 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2011 Bond Owner will increase the 2011 Bond Owner's basis in the applicable 2011 Bond. The amount of original issue discount that accrues to the Owner of the 2011 Bonds is excluded from the 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 California personal income tax.

Bond Counsel's opinion, as to the exclusion from gross income of interest (and original issue discount) on the 2011 Bonds, is based upon certain representations made by the Agency and others, and is subject to the condition that the Agency comply with certain covenants and the requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the 2011 Bonds to assure that interest (and original issue discount) on the 2011 Bonds will remain excludable from gross income for federal income tax purposes. Failure to comply with such requirements possibly could cause interest (and original issue discount) on the 2011 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2011 Bonds. The Agency has covenanted to comply with all such requirements.

The amount by which a 2011 Bond Owner's original basis for determining loss on sale or exchange of the applicable 2011 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2011 Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2011 Bond premium reduces the 2011 Bond Owner's basis in the applicable 2011 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 amortization of 2011 Bond premium may result in a 2011 Bond Owner realizing a taxable gain when a 2011 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2011 Bond to the Owner. Purchasers of the 2011 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2011 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 2011 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2011 Bonds might be affected as a result of such an audit of the 2011 Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2011 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2011 Bonds or their market value.

It is possible that subsequent to the issuance of the 2011 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 2011 Bonds or the market value of the 2011 Bonds. No assurance can be given that subsequent to the issuance of the 2011 Bonds such changes or interpretations will not occur.

Bond Counsel’s opinion is based on an analysis of existing statutes, regulations, rulings and judicial decisions. Such 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. The Resolution and the Tax Certificate relating to the 2011 Bonds permit certain actions to be taken or to be omitted if a favorable opinion is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the 2011 Bonds for federal income tax purposes with respect to any 2011 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2011 Bonds is excluded from gross income for federal income tax purposes, as provided above, the ownership of the 2011 Bonds and the accrual or receipt of interest on the 2011 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers of the 2011 Bonds should consult their tax advisors before purchasing any of the 2011 Bonds with respect to collateral tax consequences relating to the 2011 Bonds.

Should the interest (and original issue discount) on the 2011 Bonds become includable in gross income for federal income tax purposes, the 2011 Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Resolution.

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

General. Owners of the 2011 Bonds should be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2011 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2011 Bonds other than as expressly described above.

Continuing Disclosure

The Agency has undertaken for the benefit of holders and beneficial owners of the 2011 Bonds to provide certain financial information and operating data relating to the Agency by not later than eight months following the end of the Agency’s fiscal year (currently by March 1 each year based upon the June 30 end of the Agency’s fiscal year), commencing March 1, 2012 with the report for the 2010-11 Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain listed events. The Annual Report and notices of certain listed events will be filed by the Agency with Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX E — “Form of Continuing Disclosure Certificate.” These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the “Rule”).

[The Agency has not failed to comply in any material respects with previous undertakings to provide annual reports and notices of material events under the Rule in the past five years.]

Underwriting

The 2011 Bonds were sold to the Santa Monica Public Financing Authority for concurrent resale to E. J. De La Rosa & Co., Inc., as representative of itself and Wells Fargo Bank, National Association (collectively, the “Underwriters”), pursuant to a bond purchase agreement dated _____, 2011. The Underwriters have agreed to purchase the 2011 Bonds at a purchase price of \$_____ (being the principal amount of the 2011 Bonds (\$_____ .00) less an original issue discount of \$_____ and less an Underwriters’ discount of \$_____).

The Underwriters may change the initial public offering prices of the 2011 Bonds from time to time. The Underwriters will purchase all of the 2011 Bonds if any are purchased.

Financial Statements

The audited financial statements of the Agency for the Fiscal Year ended June 30, 2010, are included as part of APPENDIX C — “AUDITED FINANCIAL STATEMENTS OF THE AGENCY FOR THE YEAR ENDED JUNE 30, 2010.” Such financial statements have been audited by Mayer Hoffman McCann P.C. (the “Auditor”), independent certified public accountants, whose report also appears in Appendix C. The Auditor was not requested to consent to the inclusion of its report in Appendix C, nor has the Auditor undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

Financial Advisor

Public Resources Advisory Group served as financial advisor to the Agency in connection with the issuance of the 2011 Bonds. Public Resources Advisory Group will receive compensation contingent upon the sale and delivery of the 2011 Bonds.

Professionals Involved in the Offering

The following professionals are participating in this financing: Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel and Disclosure Counsel; Kane, Ballmer & Berkman, as Agency counsel; HdL Coren & Cone, as Fiscal Consultant; Public Resources Advisory Group, as Financial Advisor to the Agency; Union Bank of California, N.A., as Trustee; and Jones Hall, A Professional Law Corporation, as counsel to the Underwriters.

The fees of Bond Counsel and Disclosure Counsel, the Underwriters and the Financial Advisor are contingent on the issuance of the 2011 Bonds.

EXECUTION

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

REDEVELOPMENT AGENCY OF THE CITY OF
SANTA MONICA

By: _____
Executive Director

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust, dated as of April 1, 2006, by and between the Agency and Union Bank of California, N.A., as trustee (the “Trustee”), as amended and supplemented by a First Supplement to Indenture of Trust, dated as of April 1, 2006, and a Second Supplement to Indenture of Trust dated as of June 1, 2011 by and between the Agency and the Trustee (as so amended and supplemented, the “Indenture”) providing for the issuance of the Redevelopment Agency of the City of Santa Monica Earthquake Recovery Redevelopment Project 2011 Tax Allocation Bonds (the “2011 Bonds”), the Redevelopment Agency of the City of Santa Monica Earthquake Recovery Redevelopment Project 2006 Tax Allocation Refunding Bonds, Series A (the “2006 Series A Bonds”) and the Redevelopment Agency of the City of Santa Monica Earthquake Recovery Redevelopment Project 2006 Taxable Tax Allocation Refunding Bonds, Series B (the “2006 Series B Bonds” and together with the 2006 Series A Bonds, the “2006 Bonds”). The 2006 Series A Bonds were issued pursuant to the Indenture of Trust, the 2006 Series B Bonds were issued pursuant to the First Supplement to Indenture of Trust and the 2011 Bonds are being issued pursuant to the Second Supplement to Indenture of Trust. Except as noted herein, the provisions of the Indenture described in this summary apply to both the 2011 Bonds and the 2006 Bonds. Accordingly, references in this summary to “Bonds” is with respect to the 2011 Bonds and/or the 2006 Bonds, as applicable. The principal difference between the application of the provisions of the Indenture results from the fact that interest paid on the 2011 Bonds and the 2006 Series A Bonds is exempt from federal income taxes and the interest paid on the Series B Bonds is intended by the Agency to be subject to federal income taxes. This is a summary of the provisions of the Indenture not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual document (copies of which may be obtained from the Trustee) for the complete terms thereof.

Definitions

“Additional Revenues” means, as of the date of calculation, the amount of Tax Revenues which, as shown in the Report of an Independent Fiscal Consultant, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made, as a result of increases in the assessed valuation of taxable property in the Project Area due to the completion of construction which is not then reflected on the tax rolls, or due to transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls.

“Agency” means the Redevelopment Agency of the City of Santa Monica, a public body corporate and politic duly organized and existing under the Law.

“Bond Counsel” means (a) Stradling Yocca Carlson & Rauth, a Professional Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Agency of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Year” means any twelve-month period beginning on July 2 in any year and extending to the next succeeding July 1, both dates inclusive; except that the first Bond Year shall begin on the Closing Date and end on July 1, 2011.

“Bonds” means, collectively, the 2011 Bonds, the 2006 Bonds and any Parity Debt.

“Business Day” means a day of the year (other than a Saturday or Sunday) on which banks in the State are not required or permitted to be closed, and on which the New York Stock Exchange is open.

“City” means the City of Santa Monica, a municipal corporation and chartered city organized and existing under the Constitution and laws of the State.

“Closing Date” means the date on which the Bonds are delivered by the Agency to the purchaser of the Bonds.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed by the Agency dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Agency relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to: printing expenses; rating agency fees; bond insurance and surety bond premiums; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds and the refunding and defeasance of the 1999 Bonds.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“County” means the County of Los Angeles, a county duly organized and existing under the Constitution and laws of the State.

“Debt Service Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Defeasance Obligations” means cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AM by S&P or Aaa by Moody’s (or any combination of the foregoing).

“Event of Default” means any of the events described in to the Indenture.

“Fair Market Value” means, with respect to any investment, the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Federal Securities” means, with respect to the Bonds, United States treasury notes, bonds, bills or certificates of indebtedness, or obligations for which the full faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form

and securities which represent an undivided interest in such direct obligations), and also any securities now or hereafter authorized, both the principal of and interest on which is guaranteed directly by the full faith and credit of the United States of America.

“Fiscal Year” means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the Agency as its official fiscal year period pursuant to a Certificate of the Agency filed with the Trustee.

“Indenture” means collectively, the Indenture of Trust, the First Supplemental Indenture of Trust and the Second Supplemental Indenture of Trust, each by and between the Agency and the Trustee, as amended or supplemented from time to time pursuant to any Supplemental Indenture entered into pursuant to the provisions of such Indenture.

“Independent Accountant” means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by or acceptable to the Agency, and who, or each of whom: (a) is in fact independent and not under domination of the Agency; (b) does not have any substantial interest, direct or indirect, with the Agency; and (c) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

“Independent Fiscal Consultant” means any consultant or firm of such consultants appointed by or acceptable to the Agency and who, or each of whom: (a) is judged by the Agency to have experience in matters relating to the financing of redevelopment projects; (b) is in fact independent and not under domination of the Agency; and (c) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

“Interest Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Interest Payment Date” means July 1, 2011, and each January 1 and July 1 thereafter so long as any of the Bonds remain unpaid.

“Law” means the Community Redevelopment Law of the State, constituting Part 1 of Division 24 of the Health and Safety Code of the State, and the acts amendatory thereof and supplemental thereto.

“Low and Moderate Income Housing Fund” means the fund of the Agency by that name established pursuant to Section 33334.3 of the Law.

“Low and Moderate Income Housing Account” means the account by that name established by the Indenture and held by the Trustee.

“Maximum Annual Debt Service” means, as of the date of calculation, the largest aggregate amount of Annual Debt Service on all Outstanding Bonds, including the Bonds and all other Parity Debt, for the current or any future Bond Year. For purposes of such calculation, there shall be excluded (i) interest on any Parity Debt which is to be paid from amounts constituting capitalized interest and (ii) a pro rata portion of each installment of principal of any Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of such Parity Debt are deposited in an escrow fund from which amounts may not be released to the Agency unless the Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County) at least equal to one hundred twenty five percent (125%) of the amount of Maximum Annual Debt Service.

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

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Agency pursuant to the Indenture.

“Owner” means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered on the Registration Books.

“Parity Debt” means any loans, bonds, notes, advances or indebtedness payable from Tax Revenues on a parity with the 2006 Bonds and the 2011 Bonds made to finance or refinance the Redevelopment Project and issued or incurred pursuant to and in accordance with the provisions of the Indenture.

“Parity Debt Instrument” means the [2011 Bonds Indenture] or the [Series B Bonds Indenture], as applicable, and any resolution, indenture of trust, trust agreement or other instrument authorizing the issuance of any Parity Debt and which otherwise complies with all of the terms and conditions of the Indenture.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value:

(a) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (b) below);

(b) Federal Securities;

(c) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: (i) Export- Import Bank; (ii) Farmers Home Administration; (iii) General Services Administration; (iv) U.S. Maritime Administration; (v) Small Business Administration; (vi) Government National Mortgage Association (GNMA); (vii) U.S. Department of Housing & Urban Development (DNA’s); and (viii) Federal Housing Administration;

(d) senior debt obligations rated “AAA” by S&P and “Aaa” by Moody’s issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

(e) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a 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);

(f) 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;

(g) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P;

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

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

(ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a) 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 (B) 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;

(i) investment agreements approved in writing by the Insurer, supported by appropriate opinions of counsel, with notice to S&P;

(j) the Local Agency Investment Fund of the State of California, 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; and

(k) other forms of investments approved in writing by Insurer with notice to S&P.

“Plan Limitation” means the limitations contained or incorporated in the Redevelopment Plan on the aggregate principal amount of bonded indebtedness payable from Tax Revenues which may be outstanding at any time.

“Principal Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

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

“Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met by the Agency at the time of delivery thereof to the Trustee: (a) the long-term credit rating of such bank or insurance company is Aa or better from Moody’s and AA or better from S&P; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account for the Sinking Account or the purpose of making payments required pursuant to the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the close of business on the fifteenth (15th) calendar day of the month preceding such Interest Payment Date, whether or not such fifteenth (15th) calendar day is a Business Day.

“Redemption Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Redevelopment Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Redevelopment Plan” means the Redevelopment Plan for the project designated as the “Santa Monica Earthquake Recovery Redevelopment Project”, approved by Ordinance No. 1747 of the City Council of the City, adopted on June 21, 1994, together with any amendments thereof heretofore or hereafter duly enacted pursuant to the Redevelopment Law.

“Redevelopment Project” means the undertaking of the Agency to redevelop the Project Area in accordance with the Redevelopment Plan.

“Registration Books” means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

“Request of the Agency” means a request in writing signed by the Chairman, Executive Director, Treasurer or Secretary of the Agency, or any other officer of the Agency duly authorized by the Agency for that purpose.

“Reserve Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Reserve Requirement” means, as of the date of any calculation, the lesser of (a) Maximum Annual Debt Service or (b) the maximum amount permitted to be deposited in the Reserve Account under the Tax Code, as certified to the Trustee by the Agency.

“S&P” means Standard & Poor’s Ratings Services, A Division of the McGraw-Hill Companies, Inc., its successors and assigns.

“Sinking Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Special Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“State” means the State of California.

“Subordinate Debt” means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Agency in accordance with the requirements of the Indenture, which are either: (a) payable from, but not secured by a pledge of or lien upon, the Tax Revenues; or (b) secured by a pledge of or lien upon the Tax Revenues which is subordinate to the pledge of and lien upon the Tax Revenues under the Indenture for the security of the Bonds.

“Supplemental Indenture” means any indenture, agreement or other instrument which amends, supplements or modifies the Indenture and which has been duly entered into by and between the Agency and the Trustee; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“2006 Reserve Account Subaccount” means the 2006 Series A Bonds Reserve Account Subaccount, the 2006 Series B Bonds Reserve Account Subaccount, or the 2011 Bonds Reserve Account Subaccount, as applicable, by such names established and held by the Trustee pursuant to the Indenture.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Tax Revenues” means all taxes annually allocated to the Agency with respect to the Project Area following the Closing Date, pursuant to Article 6 of Chapter 6 (commencing with section 33670) of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, including all other payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations (but

excluding payments to the Agency with respect to personal property within a Project Area pursuant to Section 16110, *et seq.*, of the Government Code of the State of California; provided, however, that Tax Revenues shall not include (a) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to section 33334.3 of the Redevelopment Law, except to the extent permitted under the Redevelopment Law to be applied to the payment of the principal of and interest and premium (if any) on the Bonds or any Parity Debt and (b) amounts payable by the Agency pursuant to Sections 33607.5 and 33607.7 of the Redevelopment Law, to the extent not subordinated to the payment of principal of and interest and prepayment premium (if any) on the Bonds or any Parity Debt.

“**Term Bonds**” means any maturity of Parity Debt which is subject to mandatory Sinking Account redemption pursuant to the Supplemental Indenture authorizing the issuance thereof.

“**Trustee**” means Union Bank of California, N.A., as Trustee under the Indenture, or any successor thereto appointed as Trustee under the Indenture in accordance with the provisions of the Indenture.

Costs of Issuance Fund

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Request of the Agency stating (a) the person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior Request of the Agency; in each case together with a statement or invoice for each amount requested thereunder. On the earlier of (i) _____, _____, or (ii) the date of receipt by the Trustee of a Request of the Agency therefor, all amounts (if any) remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Agency for deposit in the Redevelopment Fund.

Redevelopment Fund

The Redevelopment Fund shall be established and held by the Agency. The moneys in the Redevelopment Fund shall be used in the manner provided by the Law solely for the purpose of aiding in financing redevelopment activities with respect to the Redevelopment Project, including payment of any remaining unpaid Costs of Issuance. The Agency covenants in the Indenture that no funds on deposit in the Redevelopment Fund shall be applied for any purpose not authorized by the Law.

Low and Moderate Income Housing Account

The Low and Moderate Income Housing Account shall be established and held by the Agency. The Agency shall cause to be deposited in the Low and Moderate Income Housing Account the amount of the proceeds of Parity Debt specified in any Supplemental Indenture. The Agency covenants that moneys in the Low and Moderate Income Housing Account shall be used in the manner provided by Section 33334.2 of the Redevelopment Law solely for the purpose of aiding in financing low and moderate income housing within or of benefit to the Project Area and the Agency warrants that no funds in the Low and Moderate Income Housing Account shall be applied for any purpose not authorized by Section 33334.2 of the Redevelopment Law for the expenditure of moneys in the Low and Moderate Income Housing Fund and the Indenture.

Issuance of Parity Debt

In addition to the 2006 Bonds and the 2011 Bonds, the Agency may issue or incur additional Parity Debt in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Parity Debt subject to the following specific conditions precedent:

- (a) The Agency shall be in compliance with all covenants set forth in the Indenture and all Parity Debt Instruments.

(b) The Tax Revenues estimated to be received for the then current Bond Year, based on the assessed value of property within the Project Area as set forth in the written records of the County, plus (at the option of the Agency) the Additional Revenues, shall be at least equal to one hundred twenty-five percent (125%) of Maximum Annual Debt Service on all Bonds which will be Outstanding immediately following the issuance of such Parity Debt. For purposes of computing the amount of Tax Revenues, the following requirements shall be observed:

(i) Tax Revenues shall be calculated on the basis of a tax rate of \$1.00 per \$100 of assessed value and shall not include the amounts of any State tax subventions; and

(ii) the amount of Tax Revenues shall be the amount received in the most recent Fiscal Year (which may be the current Fiscal Year) for which records are available from the County establishing the assessed valuations of property in the Project Area.

(c) The Parity Debt Instrument providing for the issuance of such Parity Debt shall provide that interest thereon shall not be payable on any dates other than January 1 and July 1, and principal thereof shall be payable on July 1 in any year in which principal is payable.

(d) The Parity Debt Instrument providing for the issuance of such Parity Debt shall provide for the deposit into the Reserve Account of an amount required to cause the balance therein to equal the full amount of the Reserve Requirement, which deposit shall be made concurrent with the issuance of such Parity Debt and may be in whole or in part in the form of a Qualified Reserve Account Credit Instrument.

(e) The proceeds of such Parity Debt may be deposited into an escrow fund from which amounts may not be released to the Agency unless and until the Tax Revenues (as evidenced in the written records of the County) at least equal one hundred twenty-five percent (125%) of the amount of Maximum Annual Debt Service.

(f) The issuance of such Parity Debt shall not cause the Agency to exceed the Plan Limitation.

(g) The Trustee shall be trustee for such Parity Debt.

(h) The Agency shall deliver to the Trustee a Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth in the foregoing provisions have been satisfied.

Issuance of Subordinate Debt

The Agency may from time to time issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency, provided that the issuance of such Subordinate Debt shall not cause the Agency to exceed the Plan Limitation.

Security for the Bonds; Equal Security

The 2011 Bonds, the 2006 Bonds and any other Parity Debt shall be secured by a first pledge of, security interest in and lien on all of the Tax Revenues and all of the moneys on deposit in the Special Fund. In addition, the Bonds shall be secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, Reserve Account and the Redemption Account. Such pledge, security interest in and lien shall be for the equal security of the Outstanding Bonds without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds of the Agency

are pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Agency and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Indenture to be performed on behalf of the Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein.

Special Fund; Deposit of Tax Revenues

There has been established pursuant to the Indenture a special fund known as the "Special Fund", which is held by the Agency. The Agency shall deposit all of the Tax Revenues received in any Bond Year in the Special Fund promptly upon receipt thereof by the Agency, until such time (if any) during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee (i) pursuant to the Indenture, and (ii) pursuant to the applicable provisions of any Parity Debt Instrument; and (except as may be otherwise provided in any Parity Debt Instrument) any Tax Revenues received during such Bond Year in excess of such amounts shall be released from the pledge and lien of the Indenture and may be used for any lawful purpose of the Agency. Prior to the payment in full of the principal of and interest and prepayment premium (if any) on the Bonds and all Parity Debt and the payment in full of all other amounts payable hereunder and under any Parity Debt Instrument, the Agency shall not have any beneficial right or interest in the moneys on deposit in the Special Fund, except only as provided in the Indenture and in any Parity Debt Instrument.

Deposit of Amounts by Trustee

The Indenture establishes a special trust fund known as the "Debt Service Fund", which is held by the Trustee. Moneys in the Special Fund shall be transferred by the Agency no later than the following times to the Trustee for deposit in the Debt Service Fund, for transfer to the following respective special accounts within the Debt Service Fund, which accounts are established with the Trustee to pay debt service on the Bonds and any Parity Debt not otherwise provided for in a Parity Debt Instrument, in the following order of priority:

(a) Interest Account. On or before the fourth Business Day preceding each date on which interest on the Bonds becomes due and payable, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such date. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. On or before the fourth Business Day preceding each date on which principal of the Bonds becomes due and payable at maturity, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will be equal to the amount of principal coming due and payable on such date on the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds upon the maturity thereof.

(c) Sinking Account. On or before the fourth Business Day preceding each date on which any Outstanding Term Bonds become subject to mandatory Sinking Account redemption, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds required subject to mandatory Sinking Account redemption on such date. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Term Bonds as it shall become due and payable upon the mandatory Sinking Account redemption thereof.

(d) Reserve Account. In addition to the Reserve Account, the Trustee shall establish within the Reserve Account the 2006 Series A Bonds Reserve Account Subaccount. In the event that the Trustee has actual knowledge that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of such notice, the Agency shall transfer to the Trustee for deposit in the applicable subaccount to which the deficiency relates (pro rata in the event a deficiency exists in more than one subaccount and Tax Revenues are insufficient to fund the entire deficiency) an amount of available Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. Amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers pursuant to any applicable Parity Debt Instrument in the applicable order of priority and to the Interest account, the Principal Account and the Sinking Account, in such order of priority, on any date which the principal of or interest on the Bonds becomes due and payable hereunder, in the event of any deficiency at any time in any of the applicable accounts. In the event there shall be insufficient amounts in the Reserve Account to make all of the transfers required by this Section and any applicable Parity Debt Instrument, then such transfers shall be made from the applicable subaccount for the benefit of the Bonds to which the applicable subaccount relates. So long as no Event of Default shall have occurred and be continuing, any amount in the Reserve Account in excess of the Reserve Requirement on the fourth (4th) Business Day preceding each Interest Payment Date shall be withdrawn from the Reserve Account by the Trustee and deposited in the Interest Account and the Interest Account established by any Parity Debt Instrument, for deposit to the applicable Bonds and/or Parity Debt to which the subaccount relates.

The Agency shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Agency to the Trustee of written calculation of the amount permitted to be released from the Reserve Account (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Account and deposit such funds in the Redevelopment Fund to be used solely as provided in the Indenture. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall reasonably be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall reasonably be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this subsection (d). Upon the expiration or any default with respect to any Qualified Reserve Account Credit Instrument, the Agency shall be obligated either (i) to replace such Qualified Reserve Account Credit Instrument, or (ii) to deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Tax Revenues.

The Reserve Account shall be maintained in the form of one or more separate subaccounts which are established at the direction of the Agency for the purpose of holding the proceeds of separate issues of the bonds in conformity with applicable provisions of the Tax Code.

The portion of the Reserve Requirement allocable to the 2006 Series A Bonds shall be satisfied initially by the credit to the 2006 Series A Bonds Reserve Account Subaccount of the Bond Reserve Fund Policy. As long as the Bond Reserve Fund Policy shall be in full force and effect, the Trustee and the agency, if applicable, agree to comply with the provisions of the Indenture relating to the Bond Reserve Fund Policy Agreement. Amounts in the subaccount of the Reserve Account shall be available only for the payment of the Bonds, including any Parity Debt to which the subaccount relates, except as may be otherwise set forth in any Parity Debt Instrument, as to amounts in the subaccount created thereunder.

(e) **Redemption Account.** On or before the Business Day preceding any date on which Bonds are subject to redemption, other than mandatory Sinking Account redemption of Term Bonds, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Redemption Account an amount required to pay the principal of and premium, if any, on the Bonds to be so redeemed on such date. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds upon the redemption thereof, on the date set for such redemption, other than mandatory Sinking Account redemption of Term Bonds.

Rights of Insurer; Consent or Approval of the Insurer

(a) With respect to the Insurer and its Insurance Policy insuring debt service on the Bonds, the following provisions shall govern, notwithstanding anything to the contrary set forth in the Indenture. The rights granted to the Insurer under the Indenture to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. In this regard, the Insurer is a third party beneficiary of the Indenture. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Bonds. With respect to Events of Default under the Indenture, the consent of the owners of the Bonds shall not be required in addition to consent of the Insurer where the Insurer was granted such right of consent.

(b) The Insurer shall be deemed to be the sole owner of the Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the owners of the Bonds insured by it are entitled to take pursuant to the Indenture. Except as otherwise provided in the Indenture, no contract shall be entered into or action taken by which the rights of the Insurer or the security or sources of payment for the Bonds may be impaired or prejudiced, except upon obtaining the prior written consent of the Insurer.

(c) The rights of the Insurer to direct or consent to Agency, Trustee or Bondowner actions under the Indenture shall be suspended during any period in which the Insurer is in default in its payment obligations under the Insurance Policy (except to the extent of amounts previously paid by the Insurer and due and owing to the Insurer) and shall be of no force or effect in the event the Insurance Policy is no longer in effect or the Insurer asserts that the Insurance Policy is not in effect or the Insurer shall have provided written notice that it waives such rights.

(d) The Insurer shall be deemed to be the Owner of all Bonds insured under the Insurance Policy for the following purposes and provided that the Insurer is not on default under the terms of the Insurance Policy, during the following times under the Indenture: (a) at all times for the purpose of the execution and delivery of a Supplemental Indenture relating to any amendment, change or modification of the Indenture where the consent of the Bondowners is required; (b) at all times with respect to the initiation by the Bondowners of any action to be taken under the Indenture by the Trustee at the request of such Bondowners, which under the Indenture requires the written approval or consent of or permits initiation by the owners of a specified principal amount of Bonds then Outstanding; and (c) following the occurrence of an Event of Default for all other purposes.

(e) The Agency shall, to the extent permitted by law, pay or reimburse the Insurer for any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with the pursuit of any remedies under the Indenture or the enforcement of the Indenture or otherwise afforded by law or equity other than resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

(f) Payments required to be made to the Insurer shall be payable solely from Tax Revenues and other amounts pledged under the Indenture and shall be paid (i) prior to an Event of Default after required deposits to the Revenue Fund and (ii) on and after an Event of Default, with respect to amounts other than principal and interest on the Bonds, on a priority immediately following payments to the Trustee for expenses

(g) The Insurer shall be deemed to be a party in interest under the Indenture and as a party entitled to (i) notify the Agency, the Trustee or any applicable receiver of the occurrence of an Event of Default and (ii) request the Trustee or receiver to intervene in judicial proceedings that could affect the Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Insurer.

(h) The Insurer shall be provided with the following information:

(i) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit in the Reserve Account;

(ii) Notice of the redemption, other than pursuant to mandatory sinking fund redemption, of any of the Bonds, or the advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(iii) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934; and

(iv) Such additional information as the Insurer may reasonable request from time to time.

Covenants of the Agency

Punctual Payment. The Agency shall punctually pay or cause to be paid the principal, premium (if any) and interest to become due in respect of all the Bonds in strict conformity with the terms of the Bonds and of the Indenture. The Agency shall faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures. Nothing contained in the Indenture shall prevent the Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to in the Indenture.

Limitation on Additional Indebtedness. The Agency covenants that, so long as the Bonds are Outstanding, the Agency shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, for which all or any part of the Tax Revenues are pledged as security for payment, excepting only the Bonds, any Parity Debt and any Subordinate Debt. The Agency will not otherwise encumber, pledge or place any charge or lien upon any of the Tax Revenues or other amounts pledged to the Bonds superior to the pledge and lien created in the Indenture for the benefit of the Bonds.

Extension of Payment. The Agency will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Outstanding Bonds and of all claims for interest thereon which shall not have been so

extended. Nothing in this paragraph shall be deemed, to limit the right of the Agency to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Payment of Claims. The Agency shall pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Tax Revenues or any part thereof, or upon any funds held by the Trustee pursuant to the Indenture, or which might impair the security of the Bonds. Nothing contained in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. The Agency shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the City, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Tax Revenues and the Special Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than ten percent in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The Agency will cause to be prepared and delivered to the Trustee annually, within 180 days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Tax Revenues, all disbursements from the Special Fund and the financial condition of the Redevelopment Project, including the balances in all funds and accounts relating to the Redevelopment Project, as of the end of such Fiscal Year. In accordance with the Indenture, the Trustee shall not be responsible for reviewing such financial statements. The Agency shall furnish a copy of such statements to any Owner upon reasonable request and at the expense of such Owner.

Protection of Security and Rights of Owners. The Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the date of issuance of any Bonds, such Bonds shall be incontestable by the Agency.

Payments of Taxes and Other Charges. The Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Agency or the properties then owned by the Agency in the Project Area, when the same shall become due. Nothing in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Redevelopment Project or any part thereof.

Disposition of Property. The Agency will not participate in the disposition of any land or real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) so that such disposition shall, when taken together with other such dispositions, aggregate more than ten percent of the land area in the Project Area unless such disposition is permitted as hereinafter provided in the Indenture. If the Agency proposes to participate in such a disposition, it shall thereupon appoint an Independent Fiscal Consultant to report on the effect of said proposed disposition. If the report of the Independent Fiscal Consultant concludes that the security of the Bonds or the rights of the Owners will not be materially adversely impaired by said proposed disposition, the Agency may thereafter make such disposition. If such report concludes that such security will be materially adversely impaired by the proposed disposition, the Agency shall not approve the proposed disposition.

Maintenance of Tax Revenues. The Agency shall comply with all requirements of the Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any

necessary statements of indebtedness with appropriate officials of the County and the State. The Agency shall not enter into any amendment of the Pass-Through Agreements, or any other agreement with the County or any other governmental unit, unless the Agency shall first obtain a written opinion of an Independent Fiscal Consultant that such amendment or agreement will not adversely impair the Agency's ability to pay the 2006 2011 Bonds and all Parity Debt. Nothing herein is intended or shall be construed in any way to prohibit or impose any limitations on the entering into by the Agency of any such amendment or agreement which by its term is subordinate to the payment of the Bonds and all Parity Debt.

Tax Covenants Relating to 2011 Bonds. The following tax covenants relate solely to the 2011 Bonds and the 2006 Series A Bonds. These covenants do not apply to the 2006 Series B Bonds because interest on the Series B Bonds is included in the gross income of the recipient.

(a) Private Activity Bond Limitation. The Agency shall assure that the proceeds of the 2011 Bonds are not so used as to cause the 2011 Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2011 Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The Agency shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2011 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the 2011 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

(d) Maintenance of Tax-Exemption. The Agency shall take all actions necessary to assure the exclusion of interest on the 2011 Bonds from the gross income of the Owners of the 2011 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date. This covenant shall remain in full force and effect following defeasance of the 2011 Bonds.

(e) Rebate Requirement. The Agency shall take any and all actions necessary to assure compliance with Section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2011 Bonds.

Continuing Disclosure. The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default under the Indenture. However, any Participating Underwriters or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Agency to comply with its obligations under to the Indenture.

Deposit and Investment of Moneys in Funds

Moneys in the Special Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account, the Redemption Account, the Redevelopment fund, the Low and Moderate Income Housing Account and the Costs of Issuance Fund shall be invested by the Trustee in Permitted Investments specified in the Request of the Agency (which Request shall be deemed to include a certification that the specified investment is a Permitted Investment) delivered to the Trustee at least two (2) Business Days in advance of the making of such investments In the absence of any such direction from the Agency, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (d) of the definition thereof.

Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in the Indenture any moneys are required to be transferred by the Agency to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be retained in the respective fund or account from which such investment was made, provided that all interest or gain from the investment of amounts in the Reserve Account shall be deposited by the Trustee in the Interest Account to the extent not required to cause the balance in the Reserve Account to equal the Reserve Requirement. No Permitted Investment of moneys in the Reserve Account shall have a maturity in excess of five years following the date of its acquisition. For purposes of acquiring any investments, the Trustee may commingle funds held by it under the Indenture upon receipt by the Trustee of the Request of the Agency. The Trustee may act as principal or agent in the acquisition or disposition of any investment, may utilize the investment departments of its affiliates to complete each transaction and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture. The Agency acknowledges that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Agency the right to receive brokerage confirmations of security transactions as they occur, the Agency specifically waives receipt of such confirmations to the extent permitted by law. The Trustee shall furnish to the Agency periodic statements which include detail of all investment transactions made by the Trustee.

Amendment Without Consent of Owners

The Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, with the consent of the Insurer (except with respect to an amendment pursuant to Sections (c) or (d) below), but without the consent of any Owners, to the extent permitted by law and only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the Agency contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved in the Indenture to or conferred upon the Agency provided such addition, limit, or surrender shall not materially adversely affect the interest of the Owners as determined by the Agency and certified to the Trustee; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners; or

(c) to provide for the issuance of Parity Debt pursuant to the Indenture, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of the Indenture; or

(d) to amend any provision of the Indenture to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes, in the opinion of Bond Counsel filed with the Agency and the Trustee; or

(e) to comply with the requirements of the provider of a Qualified Reserve Account Credit Instrument.

Amendment With Consent of Owners

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall

become binding when the written consent of the Insurer and the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are delivered to the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premium (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Effect of Supplemental Indenture

From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties under the Indenture or thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Events of Default and Acceleration of Maturities

Each of the following events shall constitute an Event of Default under the Indenture:

(a) Failure to pay any installment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Failure by the Agency to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of thirty days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Agency by the Trustee or the Insurer; provided, however, if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such thirty day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Agency within such thirty day period and the Agency shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The Agency shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

If an Event of Default has occurred and is continuing, the Trustee may, and if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) upon receipt of indemnity satisfactory to it from any liability or expense, including payment of the fees and expenses of its counsel and agents, exercise any other remedies available to the Trustee and the Owners in law or at equity.

Promptly upon becoming aware of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Agency by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with

respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners in the same manner as provided in the Indenture for notices of redemption of the Bonds, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law) at the weighted average interest rate then borne by the Outstanding Bonds, and the fees and expenses of the Trustee, including any fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration

All of the Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration as provided in the Indenture (excluding moneys in the Redevelopment Fund and the Low and Moderate Income Housing Account), and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee pursuant to the Indenture, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law;

(b) To the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal with interest on such overdue amounts at the respective rates of interest borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

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 a majority in 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 principal amount of the Outstanding Bonds opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation accompanied, if requested by the Trustee, by indemnity or confirmation of indemnity as described in the Indenture.

Limitation on Owner's Right to Sue

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 thereinbefore granted 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 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 in the Indenture, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners 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, 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 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 premium, if any, and interest on such Bond as provided in the Indenture, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture or any other provision of the Indenture.

Remedies Not Exclusive

No remedy in the Indenture conferred upon or reserved to the Trustee or 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 in the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Rights of Insurer

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted thereunder to the Bond Owners, or to the Trustee for the benefit of the Bond Owners, including but not limited to the right to approve all waivers of any Events of Default. The rights granted to the Insurer under the Indenture shall be deemed terminated and shall not be exercisable by the Insurer during any period during which the Insurer shall be in default under the Insurance Policy.

Discharge of Indenture

If the Agency shall pay and discharge the entire indebtedness on all Bonds or any portion thereof in any one or more of the following ways:

- (i) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;

(ii) by irrevocably depositing with the Trustee or another fiduciary, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal, interest and redemption premium, if any;

(iii) by irrevocably depositing with the Trustee or another fiduciary, in trust, Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premium, if any) at or before maturity; or

(iv) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice, then, at the election of the Agency, and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Agency under the Indenture with respect to such Bonds shall cease and terminate, except only (A) the obligations of the Agency regarding tax and rebate requirements of the Indenture, (B) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, (C) the obligation of the Agency to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and (D) the obligations of the Agency to compensate and indemnify the Trustee pursuant to the Indenture. Notice of such election shall be filed with the Trustee. In the event the Agency shall, pursuant to the foregoing provisions, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Agency all such instruments as may be necessary or desirable to evidence such discharge, including without limitation, selection by lot of Bonds of any maturity of the Bonds that the Agency has determined to pay and discharge in part. Any funds thereafter held by the Trustee, which are not required for said purpose, shall be paid over to the Agency.

APPENDIX B

SANTA MONICA GENERAL INFORMATION

General

Santa Monica (the “City”) is situated on the western portion of Los Angeles County (the “County”), bordered by the City of Los Angeles on three sides and by the Pacific Ocean to the west. The City encompasses an area slightly greater than eight square miles and has an estimated population of [92,703].

The Santa Monica Freeway passes through the approximate center of the City on an east-west course and provides direct connection with downtown Los Angeles, approximately 16 miles to the east. About six miles southeast of the City is Los Angeles International Airport, which is easily accessible via the San Diego Freeway, about one mile beyond the eastern border of the City.

Population

Population figures for the City, the County and the State for 1970, 1980 1990, 2000 and the last five years are shown in the following table. The City has been substantially built out since the 1970s.

CITY OF SANTA MONICA Population Estimates

<i>Year</i>	<i>City of Santa Monica</i>	<i>County of Los Angeles</i>	<i>State of California</i>
1970	88,289	7,041,980	19,971,069
1980	88,314	7,477,421	23,668,562
1990	86,905	8,832,500	29,558,000
2000	84,084	9,519,330	33,873,086
2006	90,750	10,202,094	37,087,005
2007	91,124	10,231,000	37,463,609
2008	91,439	10,285,296	37,871,509
2009	92,494	10,355,053	38,255,508
2010	92,703	10,441,080	38,648,090

Source: State Department of Finance estimates (as of January 1 except 1970 through 1980, which are as of April 1).

Government and Administration

The City was incorporated in 1886 and became a charter city in 1945. In 1947 a council-manager form of government was established following a vote of the City’s residents and approval by the California Legislature. The City Council consists of seven members with overlapping terms of four years. Elections are held every two years, at which time either three or four Council members are elected.

The City Council appoints a city manager, city attorney and city clerk. The city manager is responsible for supervising the day-to-day operations of the City and for carrying out policies set by the Council.

Largest Employers

The table below lists the larger employers in the Los Angeles County area as of January 1, 2011. Major private employers in the Los Angeles area include those in health care, electronics, retail and package delivery services. Major public sector employers include the State of California and the County.

**LOS ANGELES COUNTY
Major Employers**

<i>Employer Name</i>	<i>Location</i>	<i>Industry</i>
American Honda Motor Co Inc.	Torrance	Automobile & Truck Brokers
California Institute Of Technology	Pasadena	Schools-Universities & Colleges
California State-Northridge	Northridge	Crisis Intervention Service
Cedars Sinai Medical Center	West Hollywood	Physicians & Surgeons
Century Plaza Towers	Los Angeles	Office Buildings & Parks
Contractor State License Center	Burbank	Schools-Business & Vocational
Fire Command Control	Los Angeles	Fire Departments
Gold Coast Tire Co Inc.	Los Angeles	Batteries-Storage-Retail
Kaiser Foundation Hospital	Los Angeles	Hospitals
Kaiser Permanente	Los Angeles	Physicians & Surgeons
LAC & USC Medical Center	Los Angeles	Hospitals
Long Beach City Hall	Long Beach	City Government-Executive Offices
Long Beach Financial Management	Long Beach	City Government-Finance & Taxation
Long Beach Memorial Medical	Long Beach	Hospitals
Los Angeles County Sheriff	Monterey Park	Sheriff
Los Angeles Police Department	Los Angeles	Police Departments
Nestle USA	Glendale	Food Products & Manufacturers
Raytheon Space & Airborne Systems	El Segundo	Business Services
Santa Monica College	Santa Monica	Schools-Universities & Colleges
Six Flags Magic Mountain Inc.	Valencia	Amusement & Theme Parks
Sony Pictures Entertainment	Culver City	Motion Picture Film-Distributors
Synxis	Pasadena	Hotels & Motels
UCLA	Los Angeles	Schools-Universities & Colleges
UCLA Health System	Los Angeles	Schools-Universities & Colleges
Walt Disney Co.	Burbank	Motion Picture Producers & Studios

Source: State of California Employment Development Department.

The table below lists the largest employees in the City as of June 30, 2010.

**CITY OF SANTA MONICA, CALIFORNIA
PRINCIPAL EMPLOYERS
June 30, 2010**

<i>Employer</i>	<i>Total Number of Employees in the City</i>	<i>Total Number of Employees in the Project Area</i>
Santa Monica College	2,187	2,187
City of Santa Monica	2,177	2,177
Saint John's Hospital Medical Center	1,813	1,813
Santa Monica-UCLA Hospital	1,786	1,786
Santa Monica-Malibu Unified School District	1,553	1,553
RAND Corporation	894	894
Activision	663	0
MTV Networks	648	648
Universal Music Group	620	620
ET Whitehall (Shutters and Casa del Mar)	<u>546</u>	<u>546</u>
Total Jobs Provided by Principal Employers	<u>12,887</u>	<u>12,224</u>
Average total jobs in Santa Monica	74,237	74,237
Principal Employers as Percent of Total Jobs	17.36%	16.47%

Source: City of Santa Monica Economic Development Division, Resource Management Department

Employment

The City is included in the Los Angeles-Long Beach Metropolitan Statistical Area. The distribution of employment in the Los Angeles/Long Beach area is presented in the following table for the calendar years 2005 through 2009. These figures are multi county-wide statistics and may not necessarily accurately reflect employment trends in the City.

**Los Angeles Metropolitan Statistical Area (Los Angeles County)
Civilian Labor Force, Employment and Unemployment
(Annual Averages)**

<i>Industry</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
Goods Producing:	623,200	611,200	584,000	510,600	482,700
Natural Resources and Mining	4,000	4,400	4,400	4,100	4,200
Construction	157,500	157,600	145,200	117,300	104,300
Manufacturing:	461,700	449,200	434,500	389,200	374,200
Durable Goods	257,300	250,900	243,200	217,500	207,200
Nondurable Goods	204,400	198,300	191,200	171,600	166,900
Service Providing:	3,469,300	3,510,900	3,486,700	3,313,500	3,286,300
Wholesale Trade	225,700	227,000	223,700	204,500	202,900
Retail Trade	423,300	426,000	416,500	387,000	385,200
Transp., Warehousing & Utilities	165,200	165,600	163,100	151,200	150,300
Information	205,600	209,800	210,300	191,200	192,400
Financial Activities	246,700	243,800	233,300	216,000	209,200
Professional & Business Services	598,900	605,400	582,600	529,800	526,100
Education & Health Services	480,800	492,700	505,800	514,600	522,700
Leisure & Hospitality	388,600	397,900	401,600	385,600	384,600
Other Services	145,200	147,100	146,100	137,900	136,300
Government	589,400	595,700	603,700	595,800	576,600
Total Nonfarm	4,092,500	4,122,100	4,070,700	3,824,100	3,769,000
Total Farm	7,600	7,500	6,900	6,200	6,400
Total (all industries)	4,100,100	4,129,600	4,077,600	3,830,300	3,775,300

Source: State of California Employment Development Department.

Commercial Activity

A summary of historic taxable sales within the City during the past five years for which data is available is shown in the following table. Figures for 2010 are not yet available.

**CITY OF SANTA MONICA
Taxable Transactions
(figures in thousands)**

	2005	2006	2007	2008	2009
Apparel Stores	\$337,230	\$336,229	\$327,768	\$325,835	\$272,133
General Merchandise	72,935	65,731	60,131	48,371	26,308
Food Stores	76,460	81,546	85,551	87,818	85,034
Eating & Drinking Places	407,701	426,220	459,782	452,371	425,412
Building Materials	109,936	125,567	132,959	119,383	90,123
Auto Dealers & Auto Suppliers	706,009	714,543	724,018	678,604	607,195
Service Stations	101,255	131,785	137,758	146,172	109,105
Other Retail Stores	648,473	656,917	682,816	640,299	527,997
Retail Stores Total	2,459,999	2,538,538	2,610,783	2,498,853	2,143,307
All Other Outlets	342,139	430,207	331,111	320,235	283,257
TOTAL ALL OUTLETS	2,802,138	2,968,745	2,941,894	2,819,088	2,426,564
Apparel Stores	\$337,230	\$336,229	\$327,768	\$325,835	\$272,133
General Merchandise	72,935	65,731	60,131	48,371	26,308

Source: City of Santa Monica CAFR 2009-10.

Construction Activity

Building activity in the City between fiscal years 2005-06 and 2009-10 is shown in the following table.

**CITY OF SANTA MONICA
Total Building Permit Valuations**

Fiscal Year	Commercial Number of Units ⁽¹⁾	Construction Value	Residential Number of Units ⁽²⁾	Construction Value	Total Assessed Valuations
2005-06		\$66,449,275	238	\$96,693,536	\$18,098,550,298
2006-07		174,264,297	633	128,120,760	19,705,610,279
2007-08		171,541,504	187	87,863,887	21,122,723,929
2008-09		50,190,611	82	53,935,976	23,412,712,570
2009-10	3	33,395,839	501	87,108,378	24,020,421,228

⁽¹⁾ Represents the number of new commercial buildings.

⁽²⁾ Represents the number of new dwelling units.

Source: City of Santa Monica

Education

Public education is provided to City residents of school age through the Santa Monica-Malibu Unified School District, which operates nine elementary schools, three middle schools, two high schools, one adult school and an alternative school. The Santa Monica- Malibu Unified School District also provides additional programs, such as bilingual education, computer literacy, the Gifted and Talented Program, the Regional Occupation Program (vocational skills), and pre-school and school age child care programs.

There are 19 private and five parochial schools in Santa Monica. The City also has one community college, Santa Monica College, which includes technical and vocational schools, including the Academy of Entertainment and Technology, and an Emeritus College.

APPENDIX C
AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR FISCAL YEAR ENDED JUNE 30, 2010

APPENDIX D
FORM OF BOND COUNSEL OPINION

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX F
BOOK ENTRY-ONLY SYSTEM

APPENDIX G
FISCAL CONSULTANT REPORT