

RESOLUTION NO. 2-16 (OB)

RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE APPROVING THE ISSUANCE OF REFUNDING BONDS AND MAKING RELATED FINDINGS AND DECLARATIONS AND TAKING RELATED ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Redevelopment Agency of the City of Watsonville (the “Former Agency”) was a public body, corporate and politic, duly established and authorized to transact business and exercise powers under and pursuant to the provisions of the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the Health and Safety Code of the State (the “Law”); and

WHEREAS, pursuant to Section 34172(a) of the California Health and Safety Code (unless otherwise noted, all Section references in this Resolution are to the California Health and Safety Code), the Former Agency has been dissolved and no longer exists, and pursuant to Section 34173, the Successor Agency to the Redevelopment Agency of the City of Watsonville (the “Successor Agency”) has become the successor entity to the Former Agency; and

WHEREAS, pursuant to Section 34179, this Oversight Board has been established for the Successor Agency; and

WHEREAS, prior to dissolution of the Former Agency, for the purpose of financing redevelopment activities of the Former Agency, the Former Agency issued its (i) \$19,000,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Tax Allocation Bonds, Series A; (ii) \$2,310,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Tax Allocation Bonds, Series B-1; and (iii) \$4,635,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment

Project 2004 Housing Taxable Tax Allocation Bonds, Series B-2 (collectively, the “2004 Bonds”); and

WHEREAS, Section 34177.5 authorizes the Successor Agency to issue refunding bonds pursuant to Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the “Refunding Law”) for the purpose of achieving debt service savings within the parameters set forth in Section 34177.5(a)(1) (the “Savings Parameters”); and

WHEREAS, to determine compliance with the Savings Parameters for purposes of the issuance by the Successor Agency of its Successor Agency to the City of Watsonville Redevelopment Agency 2016 Tax Allocation Refunding Bonds (the “Refunding Bonds”), the Successor Agency has caused its independent financial advisor, Steven Gortler (the “Financial Advisor”), to prepare a preliminary analysis of the potential savings that will accrue to the Successor Agency and to applicable taxing entities as a result of the use of the proceeds of the Refunding Bonds to refund the 2004 Bonds (the “Preliminary Debt Service Savings Analysis”), and the Preliminary Debt Service Savings Analysis is on file with this Oversight Board; and

WHEREAS, on March 8, 2016, the Successor Agency adopted a resolution (the “Successor Agency Resolution”) approving the issuance of the Refunding Bonds pursuant to Section 34177.5(a)(1), a copy of which Successor Agency Resolution is attached hereto as Exhibit “A”; and

WHEREAS, pursuant to the Successor Agency Resolution, the Successor Agency, among other things, approved the Preliminary Debt Service Savings Analysis, approved the issuance of the Refunding Bonds, approved the sale of the Refunding Bonds to Hilltop Securities (the “Underwriter”) pursuant to a Bond Purchase Contract (the “Purchase

Contract"), authorize the execution and delivery of the Indenture of Trust, by and between the Successor Agency and U.S. Bank National Association, as trustee, providing for the issuance of the Refunding Bonds (the "Indenture"), approve the refunding and redemption of the 2004 Bonds in accordance with Irrevocable Refunding Instructions to be given by the Successor Agency to U.S. Bank National Association (the "Irrevocable Refunding Instructions"), and approve and authorize the distribution of a preliminary and final Official Statement related to the Refunding Bonds, and the Purchase Contract, the Indenture, the Irrevocable Refunding Instructions and the preliminary Official Statement are on file with this Oversight Board; and

WHEREAS, this Oversight Board has completed its review of the refunding proceedings described in the Successor Agency Resolution and the Preliminary Debt Service Savings Analysis and wishes at this time to give its approval to the foregoing.

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD FOR THE SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE AS FOLLOWS:

Section 1. Recitals. The Recitals set forth above are true and correct and are incorporated into this Resolution by this reference.

Section 2. Determination of Savings. This Oversight Board has determined that there are significant potential savings available to the Successor Agency and to applicable taxing entities in compliance with the Savings Parameters by the issuance by the Successor Agency of the Refunding Bonds to refund and redeem the 2004 Bonds, all as evidenced by the Preliminary Debt Service Savings Analysis, which Preliminary Debt Service Savings Analysis is hereby approved.

Section 3. Direction and Approval of Issuance of the Bonds. As authorized by Section 34177.5(f), the Oversight Board hereby directs the Successor Agency to undertake the refunding proceedings, and as authorized by Section 34177.5(f) and Section 34180, this Oversight Board hereby directs and approves the issuance by the Successor Agency of the Refunding Bonds pursuant to Section 34177.5(a)(1) and under other applicable provisions of the Law and the Refunding Law and as provided in the Successor Agency Resolution and the Indenture in the aggregate principal amount of not to exceed \$16,500,000, provided that the principal and interest payable with respect to the Refunding Bonds complies in all respects with the requirements of the Savings Parameters with respect thereto, as shall be certified to by the Financial Advisor upon delivery of the Refunding Bonds or any part thereof.

In connection with the sale and issuance of the Refunding Bonds, the Successor Agency is authorized to purchase a municipal bond insurance policy and a reserve account surety bond for all or a portion of the Refunding Bonds if the Successor Agency determines that the purchase of either or both reduces the true interest cost of all or a portion of the Refunding Bonds, thereby increasing the savings obtained through the issuance of the Refunding Bonds and the refunding of the 2004 Bonds.

Section 4. Sale and Delivery of Refunding Bonds in Whole or in Part. The Oversight Board hereby approves the sale and delivery of the Refunding Bonds in whole, provided that there is compliance with the Savings Parameters. However, if such Savings Parameters cannot be met with respect to the whole of the Refunding Bonds, then the Oversight Board approves the sale and delivery of the Refunding Bonds from time to time in part. In the event the Refunding Bonds are initially sold in part, the Successor Agency is hereby authorized to sell and deliver additional parts of the Refunding Bonds without

the prior approval of this Oversight Board provided that in each such instance the Refunding Bonds so sold and delivered in part are in compliance with the Savings Parameters.

Section 5. Determinations by the Oversight Board. Based upon the full record before it, which includes but is not limited to staff reports, testimony, and other materials and evidence provided, the Oversight Board makes the following determinations upon which the Successor Agency shall rely in undertaking the refunding proceedings and the issuance of the Refunding Bonds:

- (a) The Successor Agency is authorized, as provided in Section 34177.5(f), to recover its costs related to the issuance of the Refunding Bonds from the proceeds of the Refunding Bonds, including the cost of reimbursing its administrative staff for time spent with respect to the authorization, issuance, sale and delivery of the Refunding Bonds;
- (b) The application of proceeds of the Refunding Bonds by the Successor Agency to the refunding and redemption of the 2004 Bonds, as well as the payment by the Successor Agency of costs of issuance of the Refunding Bonds, as provided in Section 34177.5(a), shall be implemented by the Successor Agency promptly upon sale and delivery of the Refunding Bonds; and
- (c) The Successor Agency shall be entitled to receive its full Administrative Cost Allowance under Section 34183(a)(3) without any deductions with respect to continuing costs related to the Refunding Bonds, such as trustee's fees, auditing and fiscal consultant fees and continuing disclosure and rating agency costs (collectively, "Continuing Costs of

Issuance"), and such Continuing Costs of Issuance shall be payable from property tax revenues pursuant to Section 34183. In addition and as provided by Section 34177.5(f), if the Successor Agency is unable to complete the issuance of any of the Refunding Bonds for any reason, the Successor Agency shall, nevertheless, be entitled to recover its costs incurred with respect to the refunding proceedings with respect to the Refunding Bonds from such property tax revenues pursuant to Section 34183 without reduction in its Administrative Cost Allowance.

Section 6. Further Determinations. Pursuant to Health and Safety Code

Section 34177.5(h), the Oversight Board further finds and determines, based on information provided, that: (a) the Successor Agency has made, and will continue to make, diligent efforts to assure that the lowest long-term cost financing is obtained with the Refunding Bonds; (b) the Refunding Bonds will not provide for any bullets or spikes and shall not use variable rates of interest; and (c) the Successor Agency has made, and will continue to make, use of an independent financial advisor in issuing the Refunding Bonds.

Section 7. Effective Date. Pursuant to Health and Safety Code Section 34177(f) and Section 34179(h), this Resolution shall be effective five (5) business days after proper notification hereof is given to the California Department of Finance unless the California Department of Finance requests a review of the actions taken in this Resolution, in which case this Resolution will be effective upon approval by the California Department of Finance.

The foregoing resolution was introduced at a regular meeting of the Oversight Board of Successor Agency to the City of Watsonville Redevelopment Agency, held on the 9th day of March, 2016, by Member Coffman-Gomez, who moved its adoption, which motion being duly seconded by Member Caput, was upon roll call carried and the resolution adopted by the following vote:

AYES: BOARD MEMBERS: **Canady, Caput, Coffman-Gomez, Manning**
NOES: BOARD MEMBERS: **None**
ABSENT: BOARD MEMBERS: **Friend, Medina**

Nathalie Manning
Nathalie Manning, Chair

ATTEST:

Beatriz Vázquez Flores

I, Beatriz Vázquez Flores, City Clerk of the City of Watsonville, do hereby certify that the foregoing Resolution No. 2-16 (OB) was duly and regularly passed and adopted by the Oversight Board at a meeting thereof held on the 9th day of March, 2016, and that the foregoing is a full, true and correct copy of said Resolution.

Beatriz Vázquez Flores
Beatriz Vázquez Flores, City Clerk

RESOLUTION NO. 1-16 (SA)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WATSONVILLE ACTING AS THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE, APPROVING THE ISSUANCE OF REFUNDING BONDS IN ORDER TO REFUND CERTAIN OUTSTANDING BONDS OF THE FORMER CITY OF WATSONVILLE REDEVELOPMENT AGENCY, APPROVING THE EXECUTION AND DELIVERY OF AN INDENTURE OF TRUST, A BOND PURCHASE CONTRACT AND REFUNDING INSTRUCTIONS, APPROVING A PRELIMINARY OFFICIAL STATEMENT AND A FINAL OFFICIAL STATEMENT AND AUTHORIZING THE DISTRIBUTION THEREOF, AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO

WHEREAS, pursuant to Section 34172(a) of the California Health and Safety Code (unless otherwise noted, all Section references hereinafter being to such Code), the Redevelopment Agency of the City of Watsonville (the “Former Agency”) has been dissolved and no longer exists as a public body, corporate and politic, and pursuant to Section 34173, the Successor Agency to the Redevelopment Agency of the City of Watsonville (the “Successor Agency”) has become the successor entity to the Former Agency; and

WHEREAS, prior to dissolution of the Former Agency, for the purpose of financing redevelopment activities of the Former Agency, the Former Agency issued its (i) \$19,000,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Tax Allocation Bonds, Series A; (ii) \$2,310,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Tax Allocation Bonds, Series B-1; and (iii) \$4,635,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Taxable Tax Allocation Bonds, Series B-2 (collectively, the “2004 Bonds”); and

WHEREAS, Section 34177.5 authorizes the Successor Agency to issue refunding bonds pursuant to Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the “Refunding Law”) for the purpose of achieving debt service savings within the parameters set forth in Section 34177.5(a)(1) (the “Savings Parameters”); and

WHEREAS, to determine compliance with the Savings Parameters for purposes of the issuance by the Successor Agency of its Successor Agency to the City of Watsonville Redevelopment Agency 2016 Tax Allocation Refunding Bonds (the “Refunding Bonds”), the Successor Agency has caused its municipal advisor, Steven Gortler (the “Municipal Advisor”), to prepare a preliminary analysis of the potential savings that will accrue to the Successor Agency and to applicable taxing entities as a result of the use of the proceeds of the Refunding Bonds to refund the 2004 Bonds (the “Preliminary Debt Service Savings Analysis”); and

WHEREAS, the Successor Agency desires at this time to approve the issuance of the Refunding Bonds and to approve the form of and authorize the execution and delivery of the Indenture of Trust, by and between the Successor Agency and U.S. Bank National Association, as trustee, providing for the issuance of the Refunding Bonds (the “Indenture”), and the Irrevocable Refunding Instructions to be delivered to U.S. Bank National Association, as trustee of the 2004 Bonds, to be dated as of the date of the issuance and delivery of the Refunding Bonds (the “2004 Refunding Instructions”); and,

WHEREAS, pursuant to Section 34179, an oversight board (the “Oversight Board”) has been established for the Successor Agency; and

WHEREAS, the Oversight Board will be requested to approve the issuance of the Refunding Bonds and the other actions of the Successor Agency that are set forth in and

contemplated by this Resolution which approval shall be a condition to the issuance of the Refunding Bonds; and

WHEREAS, the Successor Agency desires at this time to sell the Refunding Bonds to Hilltop Securities (the “Underwriter”), pursuant to the terms of the Bond Purchase Contract (the “Purchase Contract”) on file with the City Clerk, as the secretary (the “Secretary”) of the Successor Agency, to be entered into by the Successor Agency and the Underwriter; and

WHEREAS, the Successor Agency, with the assistance of its disclosure counsel, Norton Rose Fulbright US LLP, its Municipal Advisor and its fiscal consultant, DHA Consulting, LLC, has prepared a draft of the Official Statement for the Refunding Bonds (the “Official Statement”), which contains, among other things, information regarding the Refunding Bonds, the Former Agency and the Successor Agency, the preliminary form of which is on file with the Secretary; and

WHEREAS, the Successor Agency, with the aid of its staff, has reviewed the Official Statement and wishes at this time to approve its use and distribution as in the public interests of the Successor Agency and applicable taxing entities.

NOW, THEREFORE, BE IT RESOLVED, BY THE CITY COUNCIL OF THE CITY OF WATSONVILLE, ACTING AS THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE, AS FOLLOWS:

1. Determination of Savings. The Successor Agency hereby determines that there are significant potential savings available to the Successor Agency and to applicable taxing entities in compliance with the Savings Parameters by the issuance by the Successor Agency of the Refunding Bonds to provide funds to refund and redeem the 2004 Bonds, all as evidenced by the Preliminary Debt Service Savings Analysis on

file with the Successor Agency, which Preliminary Debt Service Savings Analysis is hereby approved. The Preliminary Debt Service Savings Analysis will be provided to the Oversight Board.

2. Approval of Issuance of the Refunding Bonds. The Successor Agency hereby authorizes and approves the issuance of the Refunding Bonds under the Law and the Refunding Law in the aggregate principal amount of not to exceed \$16,500,000, provided that the Refunding Bonds are in compliance with the Savings Parameters at the time of sale and delivery. The Refunding Bonds may be issued in one or more series, which may be tax-exempt or taxable.

3. Approval of Indenture. The Successor Agency hereby approves the Indenture prescribing the terms and provisions of the Refunding Bonds and the application of the proceeds of the Refunding Bonds. Each of the Mayor of the City of Watsonville, as Chair of the Successor Agency, the City Manager of the City of Watsonville, as the chief administrative officer of the Successor Agency, the Administrative Services Director, as the chief financial officer of the Successor Agency, the City Attorney of the City, as the general counsel of the Successor Agency, or the written designee of any such officer (each, an "Authorized Officer"), is hereby authorized and directed to execute and deliver, and the Secretary of the Successor Agency is hereby authorized and directed to attest to, the Indenture for and in the name and on behalf of the Successor Agency, in substantially the form on file with the Successor Agency, with such changes therein, deletions therefrom and additions thereto as the Authorized Officer executing the same shall approve, such approval to be conclusively evidenced by the execution and delivery of the Indenture. The Successor Agency hereby authorizes the delivery and performance of the Indenture.

4. Approval of Refunding Instructions. The form of the 2004 Refunding Instructions on file with the Successor Agency are hereby approved and the Authorized Officers are, each acting alone, hereby authorized and directed, for and in the name and on behalf of the Successor Agency, to execute and deliver the 2004 Refunding Instructions. The Successor Agency hereby authorizes the delivery and performance of its obligations under the 2004 Refunding Instructions.

5. Filing of Preliminary Debt Service Savings Analysis and Resolution. The Successor Agency is hereby further authorized and directed to file the Preliminary Debt Service Savings Analysis, together with a certified copy of this Resolution, as provided in Section 34180(j), with the Santa Cruz County Administrative Officer, the Santa Cruz County Auditor-Controller and the California Department of Finance.

6. Sale of Refunding Bonds. The Successor Agency hereby approves the Purchase Contract to be entered into with the Underwriter. The Authorized Officers, each acting alone, are hereby authorized and directed to execute and deliver the Purchase Contract for and in the name and on behalf of the Successor Agency, in substantially the form on file with the Secretary, with such changes therein, deletions therefrom and additions thereto as the Authorized Officer executing the same shall approve, such approval to be conclusively evidenced by the execution and delivery of the Purchase Contract. The Underwriter's discount (not including original issue discount) may not exceed [0.5%] of the principal amount of the Refunding Bonds.

7. Issuance of Refunding Bonds in Whole or in Part. It is the intent of the Successor Agency to sell and deliver the Refunding Bonds in whole, provided that there is compliance with the Savings Parameters. However, the Successor Agency will initially authorize the sale and delivery of the Refunding Bonds in whole or, if such Savings

Parameters cannot be met with respect to the whole, then in part; provided that the Refunding Bonds so sold and delivered in part are in compliance with the Savings Parameters. The sale and delivery of the Refunding Bonds in part will in each instance provide sufficient funds only for the refunding of that portion of the 2004 Bonds that meet the Savings Parameters. In the event the Refunding Bonds are initially sold in part, the Successor Agency intends to sell and deliver additional parts of the Refunding Bonds without the further approval of the Successor Agency or the Oversight Board, provided that in each such instance the Refunding Bonds so sold and delivered in part are in compliance with the Savings Parameters.

8. Municipal Bond Insurance and Surety Bonds. The Authorized Officers, each acting alone, are hereby authorized and directed to take all actions necessary to obtain a municipal bond insurance policy for all or a portion of the Refunding Bonds and a debt service reserve fund insurance policy for the Refunding Bonds from a municipal bond insurance company if it is determined, upon consultation with the Municipal Advisor and the Underwriter, that such municipal bond insurance policy and/or debt service reserve fund insurance policy will reduce the true interest costs with respect to the Refunding Bonds.

9. Approval of Official Statement. The Successor Agency hereby approves the preliminary Official Statement in substantially the form on file with the Secretary. Distribution of the preliminary Official Statement by the Successor Agency and the Underwriter is hereby approved, and, prior to the distribution of the preliminary Official Statement, an Authorized Officer is authorized and directed, on behalf of the Successor Agency, to deem the preliminary Official Statement "final" pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). The execution of

the final Official Statement, which shall include such changes and additions thereto deemed advisable by the Authorized Officer executing the same, and such information permitted to be excluded from the preliminary Official Statement pursuant to the Rule, is hereby approved for delivery to the purchasers of the Refunding Bonds, and each Authorized Officer, acting alone, is authorized and directed to execute and deliver the final Official Statement for and on behalf of the Successor Agency, to deliver to the Underwriter a certificate with respect to the information set forth therein and to deliver to the Underwriter a continuing disclosure undertaking substantially in the form appended to the final Official Statement.

10. Professional Services. The Authorized Officers are hereby authorized to retain, in connection with the issuance of the Refunding Bonds, Steven Gortler, as municipal advisor, the firm of Hawkins Delafield & Wood LLP, as bond counsel, the firm of Norton Rose Fulbright US LLP, as disclosure counsel and the firm of DHA Consulting, LLC as fiscal consultant, and to execute professional services agreement with each such firm. Additionally, the selection of U.S. Bank National Association, as trustee, is hereby confirmed.

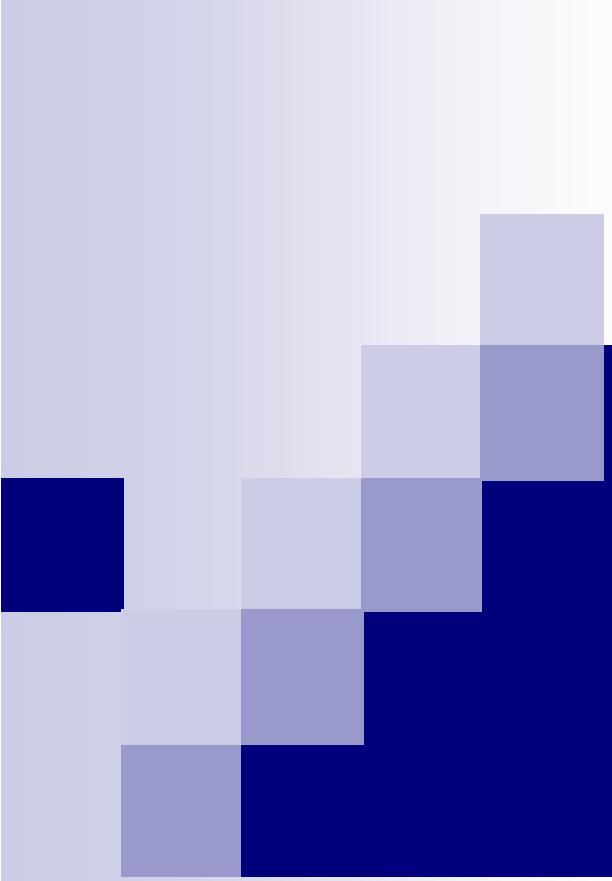
11. Documents on File. The following documents are on file with the City Clerk and are approved as to form:

- 1) Indenture;
- 2) Refunding Instructions;
- 3) Preliminary Official Statement (with Continuing Disclosure Agreement attached as Appendix D); and
- 4) Bond Purchase Contract.

12. Official Actions. The Authorized Officers and any and all other officers of the Successor Agency and the Commission are hereby authorized and directed, for and in the name and on behalf of the Successor Agency, to do any and all things and take

any and all actions, which they, or any of them, may deem necessary or advisable in obtaining the requested approval by the California Department of Finance, and in the issuance, sale and delivery of the Refunding Bonds. Whenever in this Resolution any officer of the Successor Agency is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

13. Effective Date. This Resolution shall take effect from and after the date of approval and adoption thereof.



**Successor Agency to the
Watsonville Redevelopment Agency**

2016 Tax Allocation Refunding Bonds

Preliminary Debt Service Savings Analysis

February 26, 2016

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Email: steven.gortler@att.net



Outstanding Debt of the Former Redevelopment Agency

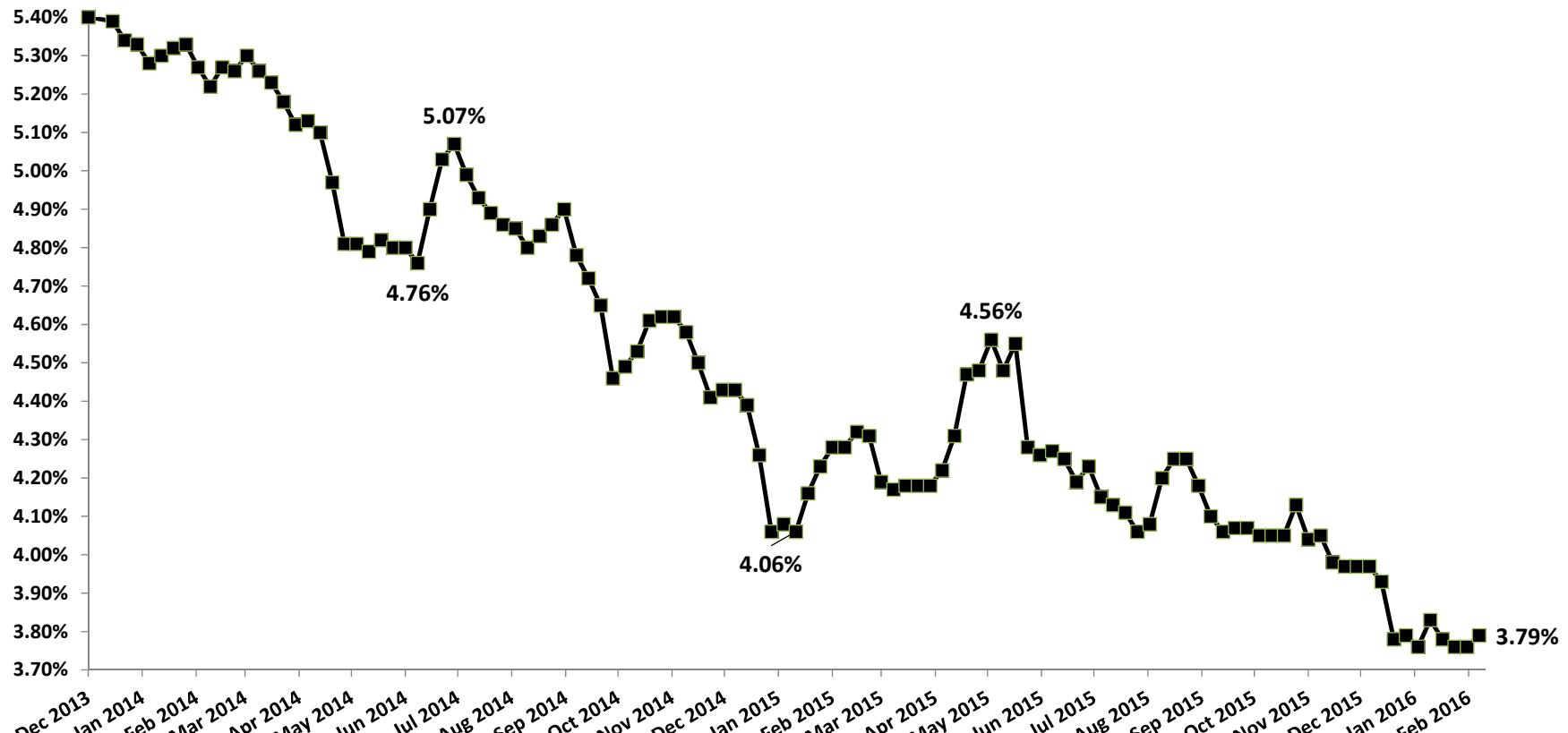
	2004 Series A	2004 Series B-1	2004 Series B-2
Date of Issuance	Jun 29, 2004	Jun 29, 2004	Jun 29, 2004
Original Par Amount	19,000,000	2,310,000	4,635,000
Outstanding Par Amount	12,900,000	1,290,000	2,720,000
Final Maturity	Sep 1, 2034	Sep 1, 2024	Sep 1, 2024
Optional Redemption Date	Sep 1, 2014	Sep 1, 2014	Sep 1, 2014



Outstanding Debt of the Former Redevelopment Agency

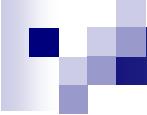
12-Mo. Ending Sep 1,	Principal	Interest	Reserve Fund	Total
2016	1,085,000	425,698		1,510,698
2017	1,135,000	800,261		1,935,261
2018	1,190,000	745,436		1,935,436
2019	1,245,000	687,116		1,932,116
2020	1,310,000	625,063		1,935,063
2021	1,375,000	558,338		1,933,338
2022	1,445,000	488,300		1,933,300
2023	1,525,000	414,250		1,939,250
2024	1,600,000	334,750	(588,021)	1,346,729
2025	400,000	250,000		650,000
2026	415,000	230,000		645,000
2027	440,000	209,250		649,250
2028	460,000	187,250		647,250
2029	485,000	164,250		649,250
2030	505,000	140,000		645,000
2031	535,000	114,750		649,750
2032	560,000	88,000		648,000
2033	585,000	60,000		645,000
2034	615,000	30,750	(1,226,074)	(580,324)
	16,910,000	6,553,462	(1,814,095)	21,649,367

Recent Trends in Municipal Bond Interest Rates (Bond Buyer Revenue Bond Index)



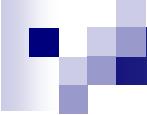
Estimated Debt Service Savings

12-Mo. Ending Sep 1,	Outstanding Debt of the Former Redevelopment Agency				Proposed Refunding Bonds			Annual Savings
	Principal	Interest	DSRF	Total	Principal	Interest	Total	
2016	1,085,000	425,698		1,510,698	1,145,000	123,292	1,268,292	242,406
2017	1,135,000	800,261		1,935,261	1,205,000	491,458	1,696,458	238,804
2018	1,190,000	745,436		1,935,436	1,225,000	470,430	1,695,430	240,007
2019	1,245,000	687,116		1,932,116	1,245,000	448,306	1,693,306	238,810
2020	1,310,000	625,063		1,935,063	1,280,000	416,542	1,696,542	238,521
2021	1,375,000	558,338		1,933,338	1,310,000	382,738	1,692,738	240,600
2022	1,445,000	488,300		1,933,300	1,375,000	317,238	1,692,238	241,063
2023	1,525,000	414,250		1,939,250	1,450,000	248,488	1,698,488	240,763
2024	1,600,000	334,750	(588,021)	1,346,729	930,000	175,988	1,105,988	240,742
2025	400,000	250,000		650,000	280,000	129,488	409,488	240,513
2026	415,000	230,000		645,000	290,000	115,488	405,488	239,513
2027	440,000	209,250		649,250	310,000	100,988	410,988	238,263
2028	460,000	187,250		647,250	320,000	85,488	405,488	241,763
2029	485,000	164,250		649,250	340,000	69,488	409,488	239,763
2030	505,000	140,000		645,000	350,000	52,488	402,488	242,513
2031	535,000	114,750		649,750	375,000	34,988	409,988	239,763
2032	560,000	88,000		648,000	385,000	23,738	408,738	239,263
2033	585,000	60,000		645,000	390,000	12,188	402,188	242,813
2034	615,000	30,750	(1,226,074)	(580,324)				(580,324)
	16,910,000	6,553,462	(1,814,095)	21,649,367	14,205,000	3,698,815	17,903,815	3,745,553

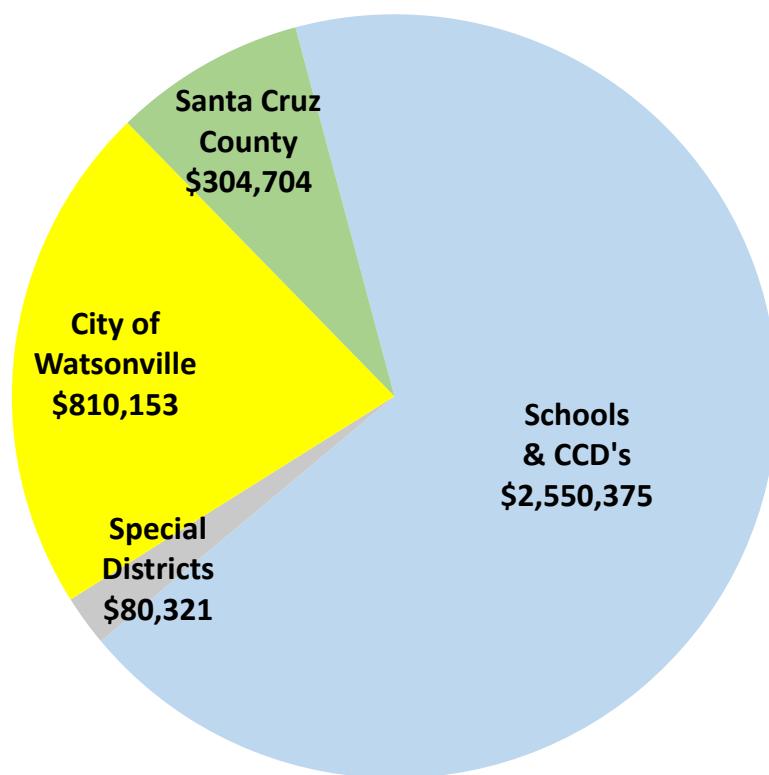
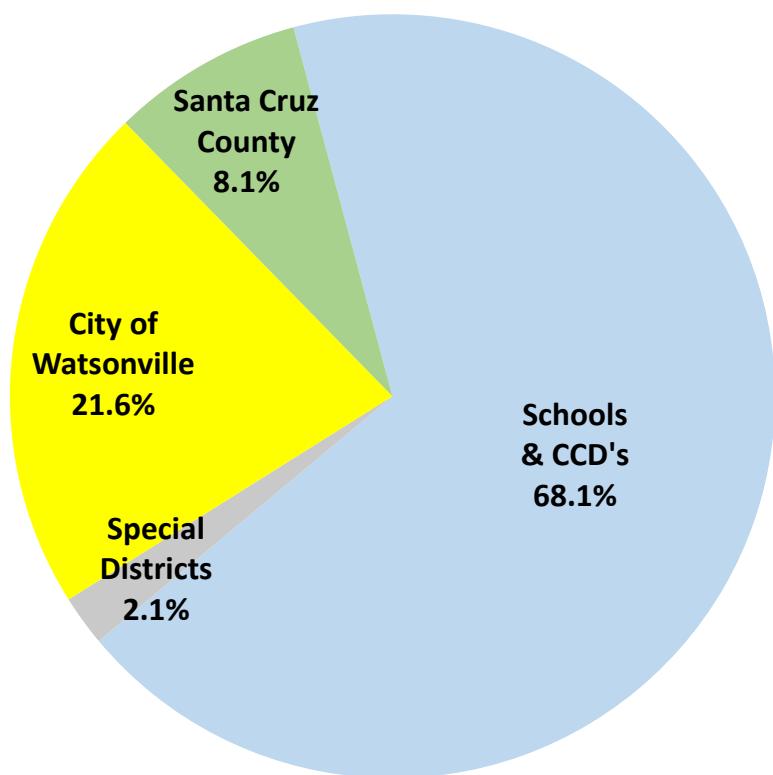


Estimated Net Present Value (NPV) Savings

Net Present Value (NPV) Savings	3,152,244
Par Amount of Refunded Bonds	16,910,000
NPV Savings / Refunded Par Amount	19%



Estimated Distribution of Savings



Estimated Distribution of Savings

12-Mo. Ending Sep 1,	City of Watsonville	Santa Cruz County	Special Districts	Schools & CCD's	Total
2016	52,432	19,720	5,198	165,056	242,406
2017	51,653	19,427	5,121	162,603	238,804
2018	51,913	19,525	5,147	163,422	240,007
2019	51,654	19,427	5,121	162,608	238,810
2020	51,591	19,404	5,115	162,410	238,521
2021	52,041	19,573	5,159	163,826	240,600
2022	52,141	19,611	5,169	164,141	241,063
2023	52,076	19,586	5,163	163,937	240,763
2024	52,072	19,585	5,163	163,923	240,742
2025	52,022	19,566	5,158	163,767	240,513
2026	51,806	19,485	5,136	163,086	239,513
2027	51,536	19,383	5,109	162,235	238,263
2028	52,293	19,668	5,184	164,618	241,763
2029	51,860	19,505	5,142	163,256	239,763
2030	52,455	19,729	5,201	165,129	242,513
2031	51,860	19,505	5,142	163,256	239,763
2032	51,752	19,464	5,131	162,916	239,263
2033	52,520	19,753	5,207	165,333	242,813
2034	(125,523)	(47,210)	(12,445)	(395,147)	(580,324)
	810,153	304,704	80,321	2,550,375	3,745,553

Exhibit "A"

16 of 184



Estimated Sources & Uses of Funds

	Series A (tax-exempt)	Series B (taxable)	Total
Sources of Funds:			
Par Amount of Bonds	11,775,000	2,430,000	14,205,000
Reoffering Premium	1,545,004	0	1,545,004
Transfer from Prior Reserve Funds	1,407,824	406,270	1,814,095
Total Sources	14,727,828	2,836,270	17,564,098
 Uses of Funds:			
Deposit to Redemption Fund	14,370,492	2,764,182	17,134,674
Estimated Costs of Issuance	357,336	72,089	429,424
Total Uses	14,727,828	2,836,270	17,564,098

Estimated Costs of Issuance

Service	Vendor	Total
Bond Insurance (65 bps)	TBD	116,375
Reserve Fund Surety (2.50%)	TBD	42,462
Underwriter:		
Takedowns	Hilltop Securities	42,999
Expenses	Hilltop Securities	5,000
Counsel	Jones Hall	10,000
Underwriter Total		57,999
Bond Counsel	Hawkins Delafield & Wood	52,500
Disclosure Counsel	Norton Rose Fulbright	35,000
Financial Advisor	Steven Gortler	35,000
Rating Agency	Standard & Poor's	15,000
Redevelopment Consultant	DHA Consulting	15,000
Time and Materials	City of Watsonville	15,000
Special Counsel	City Attorney	10,000
Trustee & Escrow Agent	U.S. Bank	5,000
Escrow Verification	Causey Demgen & Moore	3,000
Continuing Disclosure	BLX Group	2,000
Trustee Counsel	Dorsey & Whitney	2,000
Financial Printer	Royce Printing	2,000
Contingency	n/a	21,089
		429,424

INDENTURE OF TRUST

Dated as of _____ 1, 2016

by and between the

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF
WATSONVILLE**

and

**U.S. BANK NATIONAL ASSOCIATION,
as Trustee**

Relating to

**\$ _____
Successor Agency to the Redevelopment Agency of the City of Watsonville
2016 Tax Allocation Refunding Bonds, Series A**

and

**\$ _____
Successor Agency to the Redevelopment Agency of the City of Watsonville
2016 Tax Allocation Refunding Bonds, Taxable Series B**

TABLE OF CONTENTS

	Page
ARTICLE I	
DETERMINATIONS; DEFINITIONS	
Section 1.01.	Findings and Determinations.....
Section 1.02.	Definitions
Section 1.03.	Rules of Construction.....
ARTICLE II	
AUTHORIZATION AND TERMS	
Section 2.01.	Authorization of 2016 Bonds
Section 2.02.	Terms of 2016 Bonds
Section 2.03.	Redemption of 2016 Bonds.....
Section 2.04.	Form of 2016 Bonds.....
Section 2.05.	Execution of 2016 Bonds
Section 2.06.	Transfer of Bonds
Section 2.07.	Exchange of Bonds.....
Section 2.08.	Registration of Bonds
Section 2.09.	Temporary Bonds
Section 2.10.	Bonds Mutilated, Lost, Destroyed or Stolen
Section 2.11.	Book-Entry System
ARTICLE III	
DEPOSIT AND APPLICATION OF PROCEEDS OF 2016 BONDS	
Section 3.01.	Issuance of 2016 Bonds.....
Section 3.02.	Application of Proceeds of Sale and Certain Other Amounts.....
Section 3.03.	Bond Proceeds Fund; Costs of Issuance Account
Section 3.04.	2004 Bonds Refunding Fund.....
ARTICLE IV	
SECURITY OF BONDS; FLOW OF FUNDS	
Section 4.01.	Security of Bonds; Equal Security
Section 4.02.	Redevelopment Obligation Retirement Fund; Deposit of Tax Revenues with Trustee
Section 4.03.	Deposit of Amounts by Trustee.....

ARTICLE V

OTHER COVENANTS OF THE SUCCESSOR AGENCY

Section 5.01.	Punctual Payment	25
Section 5.02.	Limitation on Additional Indebtedness; Against Encumbrances	25
Section 5.03.	Extension of Payment.....	25
Section 5.04.	Payment of Claims	25
Section 5.05.	Books and Accounts; Financial Statements	25
Section 5.06.	Protection of Security and Rights of Owners	26
Section 5.07.	Payments of Taxes and Other Charges.....	26
Section 5.08.	Compliance with the Law; Recognized Obligation Payment Schedules	26
Section 5.09.	Dissolution Act Invalid; Maintenance of Tax Revenues.....	27
Section 5.10.	Rebate Fund.....	28
Section 5.11.	Tax Covenants	30
Section 5.12.	Continuing Disclosure.....	30
Section 5.13.	Further Assurances	31
Section 5.14.	Provisions Relating to the 2016 Insurance Policy and the 2016 Reserve Policy	31

ARTICLE VI

THE TRUSTEE

Section 6.01.	Duties, Immunities and Liabilities of Trustee	32
Section 6.02.	Merger or Consolidation	33
Section 6.03.	Liability of Trustee	33
Section 6.04.	Right to Rely on Documents and Opinions	36
Section 6.05.	Preservation and Inspection of Documents	37
Section 6.06.	Compensation and Indemnification.....	37
Section 6.07.	Deposit and Investment of Moneys in Funds	37
Section 6.08.	Accounting Records and Financial Statements	38
Section 6.09.	Appointment of Co-Trustee or Agent	38
Section 6.10.	Other Transactions with Successor Agency	39

ARTICLE VII

MODIFICATION OR AMENDMENT OF THIS INDENTURE

Section 7.01.	Amendment With And Without Consent of Owners	40
Section 7.02.	Effect of Supplemental Indenture.....	40
Section 7.03.	Endorsement or Replacement of Bonds After Amendment.....	41
Section 7.04.	Amendment by Mutual Consent.....	41
Section 7.05.	Trustee's Reliance.....	41

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Section 8.01.	Events of Default and Acceleration of Maturities	42
Section 8.02.	Application of Funds Upon Acceleration.....	43
Section 8.03.	Power of Trustee to Control Proceedings.....	44
Section 8.04.	Limitation on Owner's Right to Sue	44
Section 8.05.	Non-Waiver	44
Section 8.06.	Actions by Trustee as Attorney-in-Fact	45
Section 8.07.	Remedies Not Exclusive	45

ARTICLE IX

MISCELLANEOUS

Section 9.01.	Benefits Limited to Parties	46
Section 9.02.	Successor is Deemed Included in All References to Predecessor.....	46
Section 9.03.	Defeasance of Bonds	46
Section 9.04.	Execution of Documents and Proof of Ownership by Owners	47
Section 9.05.	Disqualified Bonds	47
Section 9.06.	Waiver of Personal Liability	48
Section 9.07.	Destruction of Cancelled Bonds.....	48
Section 9.08.	Notices.....	48
Section 9.09.	Partial Invalidity	48
Section 9.10.	Unclaimed Moneys.....	49
Section 9.11.	Execution in Counterparts	49
Section 9.12.	Governing Law	49

EXHIBIT A	FORM OF 2016 BOND	A-1
EXHIBIT B	DEBT SERVICE PAYMENT SCHEDULE	B-1
EXHIBIT C	PROVISIONS RELATING TO THE 2016 BOND INSURANCE POLICY AND THE 2016 BOND ISSUER.....	C-1
EXHIBIT D	PROVISIONS RELATING TO THE 2016 RESERVE POLICY AND THE 2016 BOND INSURER	D-1

INDENTURE OF TRUST

THIS INDENTURE OF TRUST (this "Indenture") is made and entered into and dated as of _____ 1, 2016, by and between the SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE, a public entity duly existing under the laws of the State of California (the "Successor Agency"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee");

W I T N E S S E T H:

WHEREAS, the former Redevelopment Agency of the City of Watsonville (the "Former Agency") was a public body, corporate and politic, duly established and authorized to transact business and exercise powers under and pursuant to the provisions of the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the Health and Safety Code of the State (the "Community Redevelopment Law");

WHEREAS, a Redevelopment Plan (as defined herein) for the City of Watsonville Project Area in the City of Watsonville, California, was adopted in compliance with all requirements of the Community Redevelopment Law;

WHEREAS, pursuant to Section 34172(a) of the California Health and Safety Code (unless otherwise noted, Section references hereinafter being to such Code), the Former Agency has been dissolved and no longer exists as a public body, corporate and politic, and pursuant to Section 34173, the Successor Agency has become the successor entity to the Former Agency;

WHEREAS, prior to the dissolution of the Former Agency, for the purpose of financing and refinancing redevelopment activities of the Former Agency, the Former Agency issued its (i) \$19,000,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Tax Allocation Bonds, Series A; (ii) \$2,310,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Tax Allocation Bonds, Series B-1; and (iii) \$4,635,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Taxable Tax Allocation Bonds, Series B-2 (collectively, the "2004 Bonds");

WHEREAS, Assembly Bill X1 26, effective June 29, 2011, together with AB 1484, effective June 27, 2012 ("AB 1484"), resulted in the dissolution of the Former Agency, and the vesting in the Successor Agency of certain of the authority, rights, powers, duties and obligations of the Former Agency;

WHEREAS, AB 1484, among other things, authorizes the Successor Agency to issue refunding bonds pursuant to Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the "Refunding Law") for the purpose of achieving debt service savings within the parameters set forth in said Section 34177.5(a);

WHEREAS, the Successor Agency has determined that it will achieve debt service savings within such parameters by the issuance pursuant to the Law and the Refunding Law of its \$ _____ aggregate principal amount of Successor Agency to the Redevelopment Agency

of the City of Watsonville 2016 Tax Allocation Refunding Bonds (the "2016 Bonds") to provide funds to refund all of the outstanding 2004 Bonds;

WHEREAS, in order to provide for the authentication and delivery of the 2016 Bonds, to establish and declare the terms and conditions upon which the 2016 Bonds are to be issued and secured and to secure the payment of the principal thereof and interest and redemption premium (if any) thereon, the Successor Agency and the Trustee have duly authorized the execution and delivery of this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the 2016 Bonds when executed by the Successor Agency, and authenticated and delivered by the Trustee, the valid, binding and legal special obligations of the Successor Agency, and to constitute this Indenture a legal, valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done or taken;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of and the interest and redemption premium (if any) on all the 2016 Bonds issued and Outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the 2016 Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the 2016 Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the Successor Agency and the Trustee do hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the 2016 Bonds, as follows:

ARTICLE I
DETERMINATIONS; DEFINITIONS

Section 1.01. **Findings and Determinations.** The Successor Agency has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the 2016 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Successor Agency is now duly empowered, pursuant to each and every requirement of law, to issue the 2016 Bonds in the manner and form provided in this Indenture.

Section 1.02. **Definitions.** Unless the context otherwise requires, the terms defined in this Section 1.02 shall, for all purposes of this Indenture, of any Supplemental Indenture, and of any certificate, opinion or other document herein mentioned, have the meanings herein specified.

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds are redeemed from mandatory sinking account payments as scheduled, (b) the principal amount of the Outstanding Serial Bonds payable by their terms in such Bond Year, and (c) the principal amount of the Outstanding Term Bonds scheduled to be paid or redeemed from mandatory sinking account payments in such Bond Year.

"Authorized Denominations" means \$5,000 or any integral multiple thereof.

"Bond" or **"Bonds"** means the 2016 Bonds and, if the context requires, any additional Parity Debt issued pursuant to a Supplemental Indenture or Parity Debt Instrument pursuant to Section 5.02 hereof.

"Bond Counsel" means (a) Hawkins Delafield & Wood LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Successor Agency, of nationally-recognized experience in the issuance of municipal obligations and obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"Bond Proceeds Fund" means the fund by that name established and held by the Trustee pursuant to Section 3.03.

"Bond Year" means, any twelve-month period beginning on August 2 in any year and ending on the next succeeding August 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date, and end on August 1, 2016.

"Business Day" means a day of the year on which banks in San Francisco, California, or the city where the Principal Corporate Trust Office is located are not required or permitted to be closed and on which the New York Stock Exchange is not closed.

"City" means the City of Watsonville, a charter city duly organized and existing under the laws of the State of California.

"Closing Date" means, with respect to the 2016 Bonds, the date on which the 2016 Bonds are delivered by the Trustee to the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Community Redevelopment Law" means the Community Redevelopment Law, constituting Part 1 of Division 24 of the California Health and Safety Code.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate executed by the Successor 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 Successor Agency relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to County and Successor Agency administrative staff costs, printing expenses, bond insurance and surety bond premiums, transferred proceeds penalties due the United States of America, underwriting fees, rating agency fees, filing and recording fees, initial fees and charges and first annual administrative fee of the Trustee and fees and expenses of its counsel, 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.

"Costs of Issuance Account" means the account by that name within the Bond Proceeds Fund established and held by the Trustee pursuant to Section 3.03.

"County" means the County of Santa Cruz, 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 Section 4.03.

"Defeasance Obligations" means (i) cash and (ii) Federal Securities.

"Depository" means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to Section 2.11.

"Depository System Participant" means any participant in the Depository's book-entry system.

"Dissolution Act" means Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code.

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

"Event of Default" means any of the events described in Section 8.01.

"Fair Market Value" means 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 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 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 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, (iv) any commingled investment fund in which the Agency 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, or (v) the investment is the Local Agency Investment Fund of the State of California but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States, as certified in writing by the Agency to the Trustee.

"Federal Securities" means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TGRS), or obligations the payment of principal of and interest on which are unconditionally guaranteed by 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 Successor Agency to the Trustee in writing as its official fiscal year period.

"Former Agency" means the former Redevelopment Agency of the City of Watsonville, a public body corporate and politic duly organized and existing under the Community Redevelopment Law and dissolved in accordance with the Dissolution Act.

"Indenture" means this Indenture of Trust by and between the Successor Agency and the Trustee, as originally entered into or as it may be amended or supplemented by any Supplemental Indenture entered into pursuant to the provisions hereof.

"Independent Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice as such under the laws of the State, appointed by the Successor Agency, and who, or each of whom:

- (a) is in fact independent and not under domination of the Successor Agency;
- (b) does not have any substantial interest, direct or indirect, with the Successor Agency; and

(c) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

"Independent Redevelopment Consultant" means any consultant or firm of such consultants appointed by the Successor Agency, and who, or each of whom:

(a) is judged by the Successor Agency to have experience in matters relating to the issuance of tax allocation refunding bonds or otherwise with respect to the financing of redevelopment projects;

(b) is in fact independent and not under domination of the Successor Agency;

(c) does not have any substantial interest, direct or indirect, with the Successor Agency; and

(d) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

"Information Services" means "EMMA" or the "Electronic Municipal Market Access" system of the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Successor Agency may designate in a Written Certificate of the Successor Agency delivered to the Trustee.

"Interest Account" means the account by that name established and held by the Trustee pursuant to Section 4.03(a).

"Interest Payment Date" means February 1 and August 1 of each year, commencing August 1, 2016, so long as any of the Bonds remain Outstanding hereunder.

"Insured 2016 Bonds" means those 2016 Bonds identified as insured pursuant to Section 2.02.

"Law" means the Community Redevelopment Law, constituting Part 1 of Division 24 of the California Health and Safety Code, together with the Dissolution Act, and the acts amendatory thereof and supplemental thereto.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year, as certified in writing by the Successor Agency to the Trustee.

"Nominee" means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.11(a).

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 9.05) 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 Section 9.03; and
- (c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Successor Agency pursuant hereto.

"Oversight Board" means the Oversight Board for the Successor Agency, duly constituted from time to time pursuant to Section 34179 of the California Health and Safety Code.

"Owner" or **"Bondowner"** 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 bonds, notes or other obligations that are payable from and secured by a lien on Tax Revenues that is on parity with the lien under this Indenture.

"Parity Debt Instrument" means any resolution, indenture of trust, loan agreement, trust agreement or other instrument authorizing the issuance of any Parity Debt, including, without limitation, a Supplemental Indenture authorized by Section 7.01(e).

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"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 (provided that the Trustee shall be entitled to rely upon any investment direction from the Agency as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State), but only to the extent that the same comply with the Successor Agency's investment policies at the time such Permitted Investment is acquired, provided that the Trustee shall be entitled to rely upon any investment directions from the Agency as conclusive certification to the Trustee that investments described therein are in compliance with the Successor Agency's investment policy then in effect:

- (a) Cash (fully insured by the Federal Deposit Insurance Corporation);
- (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;
- (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America;
- (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed

directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated;

(e) Federal Housing Administration debentures;

(f) the following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(i) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(ii) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(iii) Federal Home Loan Banks (FHL Banks) consolidated debt obligations; and

(iv) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(g) unsecured certificates of deposit, time deposits, and bankers' acceptances or other similar bank deposit products (having maturities of not more than 365 days) of any bank (which may include the Trustee and its affiliates) the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's;

(h) deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation, in banks which have capital and surplus of at least \$15 million;

(i) commercial paper (having original maturities of not more than 270 days) rated at the time of purchase "A-1+" by S&P and "Prime-1" by Moody's;

(j) money market funds (including funds for which the Trustee or an affiliate receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise) rated "Aam" or "AAm-G" by S&P, or better and if rated by Moody's rated "Aa2" or better;

(k) "State Obligations", which means:

(i) direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of such state, subdivision or agency and which is rated at least "Aa" by Moody's and at least "AA" by S&P;

(ii) direct general short-term obligations of any state agency or subdivision or agency thereof described in (a) above and rated "A-1+" by S&P and "MIG-1" by Moody's; and

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (b) above and rated "AA-" or better by S&P and "Aa3" or better by Moody's;

(l) pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(i) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification Report");

(iv) the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(v) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

(vi) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent;

(m) repurchase agreements with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "AA-" by S&P and "Aa3" Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "AA-" by S&P and "Aa3" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least "AA-" by S&P and "Aa3" Moody's and acceptable to the 2016 Bond Insurer, the form and substance of which repurchase agreement shall be in form and substance acceptable to the 2016 Bond Insurer;

(n) investment agreements with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor

is rated at least "AA" by S&P and "Aa" by Moody's, and acceptable to the 2016 Bond Insurer, the form and substance of which investment agreement shall be in form and substance acceptable to the 2016 Bond Insurer;

(o) the Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided that for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee; and

(p) any other investment approved in writing by the 2016 Bond Insurer in its sole discretion.

"Principal Account" means the account by that name established and held by the Trustee pursuant to Section 4.03(b).

"Principal Corporate Trust Office" means the principal corporate trust office of the Trustee located in Los Angeles, California, or such other office that the Trustee may designate in writing to the Successor Agency from time to time as the corporate trust office for purposes of this Indenture; *provided, however,* that for purposes of the transfer, registration, exchange, payment and surrender of Bonds, the term "Principal Corporate Trust Office" means the corporate trust office of the Trustee at which it conducts its corporate agency business.

"Project Area" means the Watsonville 2000 Development Project, as described in the Redevelopment Plan.

"Qualified Reserve Account Credit Instrument" means (i) the 2016 Reserve Policy and (ii) an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) at the time of issuance of the letter of credit, insurance policy or surety bond, S&P or Moody's have assigned a long-term credit rating to such bank or insurance company or the instrument, as applicable, of at least "AA" or "Aa"; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit, insurance policy or surety bond has a stated amount at least equal to the Reserve Requirement or, if such letter of credit, insurance policy or surety bond is being provided with respect to only a portion of the Reserve Requirement, such letter of credit, insurance policy or surety bond has a stated amount at least equal to that portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to Sections 4.03(a), 4.03(b) or 4.03(c) of this Indenture.

"Recognized Obligation Payment Schedule" means the schedule by that name prepared in accordance with the requirements of Section 34177(l) of the California Health and Safety Code.

"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 Section 4.03(e).

"Redevelopment Obligation Retirement Fund" means the fund established and held by the Successor Agency pursuant to Section 34170.5(a) of the California Health and Safety Code.

"Redevelopment Plan" means the Redevelopment Plan for the Project Area, approved by Ordinance No. 1092-00 enacted by the City Council of the City on July 27, 2000, together with any amendments thereto or hereafter duly enacted pursuant to the Community Redevelopment Law.

"Redevelopment Property Tax Trust Fund" means the fund established pursuant to Section 34170.5(b) of the California Health and Safety Code and administered by the City of Watsonville.

"Registration Books" means the records maintained by the Trustee pursuant to Section 2.08 for the registration and transfer of ownership of the Bonds.

"Refunding Law" means Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State, and the acts amendatory thereof and supplemented thereto.

"Report" means a document in writing signed by an Independent Redevelopment Consultant and including:

(a) a statement that the person or firm making or giving such Report has read the pertinent provisions of this Indenture to which such Report relates;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the Report is based; and

(c) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

"Reserve Account" means the account by that name established and held by the Trustee pursuant to Section 4.03(d).

"Reserve Requirement" means, with respect to the 2016 Bonds, the lesser of (i) 10% of the original aggregate principal amount of the 2016 Bonds (if there is more than a de minimis amount of original issue discount or premium (as defined in the Code), the issue price shall be used instead of principal amount) or (ii) 125% of the average Annual Debt Service with respect to the 2016 Bonds or (iii) Maximum Annual Debt Service with respect to the 2016 Bonds. The Successor Agency will meet the Reserve Requirement in connection with the issuance of the 2016 Bonds by depositing the 2016 Reserve Policy in the Reserve Account in accordance with Section 4.03(d) hereof.

"S&P" means Standard & Poor's Ratings Services and its successors.

"Securities Depositories" means DTC and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Successor Agency may designate in a Written Request of the Successor Agency delivered to the Trustee.

"Semiannual Period" means (a) each six-month period beginning on January 1 of any calendar year and ending on June 30 of such calendar year, and (b) each six-month period beginning on July 1 of any calendar year and ending on December 31 of such calendar year.

"Serial Bonds" means all Bonds other than Term Bonds.

"Sinking Account" means the account by that name established and held by the Trustee pursuant to Section 4.03(c).

"State" means the State of California.

"Subordinate Debt" means any loan, advances or indebtedness issued or incurred by the Successor Agency, which are payable from or secured by Tax Revenues on a subordinate basis to the pledge of and lien upon the Tax Revenues hereunder for the security of the Bonds.

"Successor Agency" means the Successor Agency for the Redevelopment Agency of the City of Watsonville, a public entity duly organized and existing under the Law.

"Supplemental Indenture" means any resolution, agreement or other instrument that has been duly adopted or entered into by the Successor Agency, but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"Tax Revenues" means all moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Law, excluding amounts if any, payable by the Successor Agency pursuant to Sections 33676, 33607.5, 33401 and 33607.7 of the Law and Section 34183(a)(1) of the Dissolution Act, except to the extent such amounts are payable on a basis subordinate to the payment of Annual Debt Service on the 2016 Bonds or any Parity Debt pursuant to Section 33607.5(e) of the Law and 34177.5(c) of the Dissolution Act.

"Term Bonds" means any Parity Debt issued pursuant to a Supplemental Indenture pursuant to Section 7.01(e) and payable from amounts in the Sinking Account established pursuant to Section 4.03(c).

"Trustee" means U.S. Bank National Association, as trustee hereunder, or any successor thereto appointed as trustee hereunder in accordance with the provisions of Article VI.

"2004 Bonds" means (i) \$19,000,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Tax Allocation Bonds, Series A; (ii) \$2,310,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Tax Allocation Bonds, Series B-1; and (iii) \$4,635,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Taxable Tax Allocation Bonds, Series B-2.

"2004 Bonds Refunding Fund" means the fund by that name established in Section 3.04 hereof.

"2004 Bonds Refunding Instructions" means those Irrevocable Refunding Instructions dated the date of issuance and delivery of the 2016 Bonds relating to the defeasance and refunding of the 2004 Bonds, executed by the Successor Agency and delivered to U.S. Bank National Association, as trustee of the 2004 Bonds.

"2016 Bonds" means the Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A and Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B.

"2016 Series A Bonds" means the Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A.

"2016 Series B Bonds" means the Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B.

"2016 Insurance Policy" means the insurance policy issued by the 2016 Bond Insurer (No. _____) guaranteeing the scheduled payment of principal of and interest on the 2016 Bonds when due.

"2016 Bond Insurer" means _____, or any successor thereto or assignee thereof, as issuer of the 2016 Insurance Policy and the 2016 Reserve Policy.

"2016 Reserve Policy" means the municipal bond debt service reserve insurance policy (No. _____) relating to the 2016 Bonds issued by the 2016 Bond Insurer.

"Tax-Exempt Bonds" means, collectively, the 2016 Series A Bonds and any Parity Debt the interest on which is not included in gross income for federal income tax purposes.

"Written Request of the Successor Agency" or **"Written Certificate of the Successor Agency"** means a request or certificate, in writing signed by the City Manager of the City of Watsonville or his or her designee, or by any other officer of the Successor Agency duly authorized by the Governing Board of the Successor Agency for that purpose.

Section 1.03. **Rules of Construction.** All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II
AUTHORIZATION AND TERMS

Section 2.01. Authorization of 2016 Bonds. The 2016 Bonds shall be issued by the Successor Agency under and subject to the terms of this Indenture, the Law and the Refunding Law as two series of Bonds. The Bonds shall be designated as the "Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A" in the aggregate principal amount of \$_____ and "Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B" in the aggregate principal amount of \$_____. This Indenture constitutes a continuing agreement with the Owners of all of the Bonds, including the 2016 Bonds, issued or to be issued hereunder and then Outstanding to secure the full and final payment of principal and redemption premiums (if any) and the interest on all Bonds, including the 2016 Bonds, which may from time to time be executed and delivered hereunder, subject to the covenants, agreements, provisions and conditions herein contained.

The 2016 Series B Bonds shall be issued as obligations in the interest on which is subject to federal income taxation.

Section 2.02. Terms of 2016 Bonds. The 2016 Bonds shall be dated as of the Closing Date, and shall be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple thereof.

The 2016 Series A Bonds shall mature and shall bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rate per annum as follows:

Maturity Date (August 1)	Principal Amount	Interest Rate Per Annum
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The 2016 Series B Bonds shall mature and shall bear interest (calculated on the basis of a 360 day year of twelve 30 day months) at the rate per annum as follows:

Maturity Date (August 1)	Principal Amount	Interest Rate Per Annum
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Interest on the 2016 Bonds (including the final interest payment upon maturity or earlier redemption) shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed by first class mail, postage prepaid, on the Interest Payment Date, to such Owner at the address of such Owner as it appears on the Registration Books as of such Record Date; provided however, that payment of interest may be by wire transfer to an account in the United States of America to any registered owner of 2016 Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee prior to the applicable Record Date. Principal of and redemption premium (if any) on any 2016 Bond shall be paid upon presentation and surrender thereof, at maturity, at the Principal Corporate Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the 2016 Bonds shall be payable in lawful money of the United States of America.

Each 2016 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) a 2016 Bond is authenticated on or before the first Record Date, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any 2016 Bond, interest thereon is in default, such 2016 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Section 2.03. Redemption of 2016 Bonds.

(a) Optional Redemption. The 2016 Bonds maturing on or before August 1, 20__ are not subject to optional redemption prior to maturity. The 2016 Bonds maturing on and after August 1, 20__, are subject to redemption, at the option of the Successor Agency on any date on or after August 1, 20__, as a whole or in part, by such maturities as shall be determined by the Successor Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the 2016 Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The Successor Agency shall be required to give the Trustee written notice of its intention to redeem 2016 Bonds under this subsection (a) with a designation of the principal amount and maturities to be redeemed at least sixty (60) days prior to the date fixed for such redemption (or such later date as is acceptable to the Trustee).

(b) Notice of Redemption. The Trustee on behalf and at the expense of the Successor Agency shall mail (by first class mail, postage prepaid) notice of any redemption at least twenty (20) but not more than sixty (60) days prior to the redemption date, to (i) to the Owners of any 2016 Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to the Information Services; but such mailing shall not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such 2016 Bonds or the cessation of the accrual of interest thereon. Such notice shall state the redemption date and the redemption price, shall state that optional redemption is conditioned upon the timely delivery of the redemption price by the Successor Agency to the Trustee for deposit in the Redemption Account, shall designate the CUSIP number of the 2016 Bonds to be redeemed, shall state the individual number of each Bond to be redeemed or shall state that all 2016 Bonds between two stated numbers (both inclusive) or all of the Bonds Outstanding are to be redeemed, and shall require that such 2016 Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such 2016 Bonds will not accrue from and after the redemption date.

The Successor Agency has the right to rescind any notice of the optional redemption of 2016 Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2016 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The Successor Agency and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

Upon the payment of the redemption price of 2016 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the 2016 Bonds being redeemed with the proceeds of such check or other transfer.

(c) Partial Redemption of 2016 Bonds. In the event only a portion of any 2016 Bond is called for redemption, then upon surrender of such 2016 Bond the Successor Agency shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Successor Agency, a new 2016 Bond or 2016 Bonds of the same interest rate and maturity, of Authorized Denominations, in aggregate principal amount equal to the unredeemed portion of the 2016 Bond to be redeemed.

(d) Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the 2016 Bonds so called for redemption shall have been duly deposited with the Trustee, such 2016 Bonds so called shall cease to be entitled to any benefit under this Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

(e) Manner of Redemption. Whenever any 2016 Bonds or portions thereof are to be selected for redemption by lot within a maturity, the Trustee shall make such selection, in such

manner as the Trustee shall deem appropriate, and shall notify the Successor Agency thereof to the extent 2016 Bonds are no longer held in book-entry form. All 2016 Bonds redeemed or purchased pursuant to this Section 2.03 shall be cancelled and destroyed.

Section 2.04. Form of 2016 Bonds. The 2016 Bonds, the form of Trustee's Certificate of Authentication, and the form of Assignment to appear thereon, shall be substantially in the form set forth in Exhibit A, which is attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

Section 2.05. Execution of 2016 Bonds. The 2016 Bonds shall be executed on behalf of the Successor Agency by the signature of its chief administrative officer or chief financial officer who are in office on the date of execution and delivery of this Indenture or at any time thereafter. Such signatures may be made manually or may be affixed by facsimile thereof. The 2016 Bonds shall be attested by the manual or facsimile of the Secretary of the Governing Board of the Successor Agency. If any officer whose signature appears on any 2016 Bond ceases to be such officer before delivery of the 2016 Bonds to the purchaser, such signature shall nevertheless be as effective as if the officer had remained in office until the delivery of the 2016 Bonds to the purchaser. Any 2016 Bond may be signed and attested on behalf of the Successor Agency by such persons as at the actual date of the execution of such 2016 Bond shall be the proper officers of the Successor Agency although on the date of such 2016 Bond any such person shall not have been such officer of the Successor Agency.

Only such of the 2016 Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore set forth, manually executed and dated by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such Certificate shall be conclusive evidence that such 2016 Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture. In the event temporary 2016 Bonds are issued pursuant to Section 2.09 hereof, the temporary 2016 Bonds may bear thereon a Certificate of Authentication executed and dated by the Trustee, shall be initially registered by the Trustee, and, until so exchanged as provided under Section 2.09 hereof, the temporary 2016 Bonds shall be entitled to the same benefits pursuant to this Indenture as definitive 2016 Bonds authenticated and delivered hereunder.

Section 2.06. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Principal Corporate Trust Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Bond or Bonds shall be surrendered for registration of transfer, the Successor Agency shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of like series, interest rate, maturity and principal amount of Authorized Denomination. The Trustee shall collect from the Owner any tax or other governmental charge on the transfer of any Bonds pursuant to this Section 2.06. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the Successor Agency.

The Trustee may refuse to transfer, under the provisions of this Section 2.06, either (a) any Bonds during the period fifteen (15) days prior to the date established by the Trustee for the selection of Bonds for redemption, or (b) any Bonds selected by the Trustee for redemption.

Section 2.07. Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other Authorized Denominations of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any Bonds pursuant to this Section 2.07. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange shall be paid by the Successor Agency.

The Trustee may refuse to transfer, under the provisions of this Section 2.07, either (a) any Bonds during the period fifteen (15) days prior to the date established by the Trustee for the selection of Bonds for redemption, or (b) any Bonds selected by the Trustee for redemption.

Section 2.08. Registration of Bonds. The Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, sufficient records for the registration and registration of transfer of the Bonds, which shall at all times during normal business hours be open to inspection by the Successor Agency, upon reasonable prior notice to the Trustee; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books Bonds as hereinbefore provided.

Section 2.09. Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Successor Agency, and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Successor Agency upon the same conditions and in substantially the same manner as the definitive Bonds. If the Successor Agency issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange therefor at the Trust Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of Authorized Denominations, interest rates and like maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits pursuant to this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.10. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Successor Agency, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Successor Agency and the Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the Successor Agency, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or

if any such Bond has matured or has been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee and the Successor Agency). The Successor Agency may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under this Section 2.10 and of the expenses which may be incurred by the Successor Agency and the Trustee in the premises. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Successor Agency whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued pursuant to this Indenture.

Section 2.11. Book-Entry System.

(a) Original Delivery. The Bonds shall be initially delivered in the form of a separate single fully registered Bond without coupons (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the ownership of each such Bond shall be registered on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, neither the Successor Agency nor the Trustee shall have any responsibility or obligation to any Depository System Participant or to any person on behalf of which the Depository System Participant holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, neither the Successor Agency nor the Trustee shall have any responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed in the event the Successor Agency elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The Successor Agency and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal, premium and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the Successor Agency to make payments of principal, interest and premium, if any, pursuant to this Indenture. Upon delivery by the Depository to the Nominee of written notice to the effect that

the Depository has determined to substitute a new nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the Successor Agency shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the Successor Agency and the Trustee shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the Successor Agency or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. The Trustee agrees to comply with all provisions in such letter with respect to the giving of notices thereunder by the Trustee. In addition to the execution and delivery of such letter, upon written request of the Depository or the Trustee, the Successor Agency may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. In the event that either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the Successor Agency determines to terminate the Depository as such, then the Successor Agency shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the Successor Agency and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the Successor Agency fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Article II. Prior to its termination, the Depository shall furnish the Trustee with the names and addresses of the Depository System Participants and respective ownership interests thereof.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium (if any) on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

ARTICLE III

DEPOSIT AND APPLICATION OF PROCEEDS OF 2016 BONDS

Section 3.01. Issuance of 2016 Bonds. Upon the execution and delivery of this Indenture, the Successor Agency shall issue and deliver 2016 Bonds to the Trustee and the Trustee shall authenticate and deliver the 2016 Bonds upon the Written Request of the Successor Agency.

Section 3.02. Application of Proceeds of Sale and Certain Other Amounts. On the Closing Date the proceeds of sale of the 2016 Bonds shall be paid to the Trustee in the amount of \$_____, which is equal to (i) the purchase price of the 2016 Bonds of \$_____ (being the aggregate principal amount of the 2016 Bonds, plus a net original issue premium in the amount of \$_____, less an underwriter's discount in the amount of \$_____), less (ii) the premium for the 2016 Insurance Policy in the amount of \$_____ and the premium for the 2016 Reserve Policy in the amount of \$_____, which shall be paid directly to the 2016 Bond Insurer. The Trustee shall apply the proceeds described in the previous sentence as follows:

(a) The Trustee shall deposit the amount of \$_____ in the Costs of Issuance Account.

(b) The Trustee shall deposit the amount of \$_____, in the 2004 Bonds Refunding Fund.

In addition, the Trustee shall credit the 2016 Reserve Policy to the Reserve Account.

Section 3.03. Bond Proceeds Fund; Costs of Issuance Account. There is hereby established a separate fund to be known as the "Bond Proceeds Fund", which shall be held by the Trustee in trust, and within such Fund there shall be established a separate Costs of Issuance Account. The moneys in the Costs of Issuance Account shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Successor Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the date which is six (6) months following the Closing Date, or upon the earlier Written Request of the Successor Agency, all amounts (if any) remaining in the Costs of Issuance Account shall be withdrawn therefrom by the Trustee and transferred to the Interest Account of the Debt Service Fund, and the Trustee shall close the Costs of Issuance Account.

Section 3.04. 2004 Bonds Refunding Fund. There is hereby created the 2004 Bonds Refunding Fund held by the Trustee in trust for the benefit of the Successor Agency. The moneys in the 2004 Bonds Refunding Fund shall be maintained separate and apart from other moneys of the Successor Agency.

The Trustee shall transfer all moneys on deposit in the 2004 Bonds Refunding Fund to U.S. Bank National Association, as trustee for the 2004 Bonds, for deposit and application under and pursuant to the 2004 Bonds Refunding Instructions. Upon making such transfer, the 2004 Bonds Refunding Fund shall be closed.

ARTICLE IV

SECURITY OF BONDS; FLOW OF FUNDS

Section 4.01. Security of Bonds; Equal Security. Except as provided in Section 6.06, the Bonds shall be equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and 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 and the Redemption Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. The Bonds shall be additionally secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Reserve Account established by Section 4.03(d). The Bonds shall be also equally secured by the pledge and lien created with respect to the Bonds by Section 34177.5(g) of the Law on the Tax Revenues deposited from time to time in the Redevelopment Property Tax Trust Fund. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest on the Bonds.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, this Indenture shall be deemed to be and shall constitute a contract between the Successor Agency and the Owners from time to time of the Bonds, and the covenants and agreements herein set forth to be performed on behalf of the Successor 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 or herein.

Section 4.02. Redevelopment Obligation Retirement Fund; Deposit of Tax Revenues with Trustee. The Successor Agency has heretofore established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Law which the Successor Agency shall continue to hold and maintain so long as any of the Bonds are Outstanding.

In accordance with Section 5.08 hereof, the Successor Agency shall deposit all Tax Revenues into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof, and promptly thereafter transfer to the Trustee for deposit in the Debt Service Fund all amounts necessary for the Trustee to fully fund the deposits described in Section 4.03(a), (b), (c), (d) and (e) for the next succeeding Bond Year. All Tax Revenues received by the Successor Agency in excess of amounts required herein shall be released from the pledge and lien hereunder and shall be applied in accordance with the Law, including but not limited to the payment of debt service on any Subordinate Debt. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable hereunder and under any Supplemental Indentures, the Successor Agency shall not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in this Indenture and in any Supplemental Indenture.

Section 4.03. Deposit of Amounts by Trustee. There is hereby established a trust fund to be known as the Debt Service Fund, which shall be held by the Trustee hereunder in trust.

The moneys in the Debt Service Fund shall be transferred by Trustee in the following amounts, at the following times, into the following respective special accounts, which are hereby established in the Debt Service Fund, and in the following order of priority:

(a) Interest Account. On or before the fifth (5th) Business Day preceding each Interest Payment Date, the Trustee shall transfer and deposit in the Interest Account an amount which, when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. 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.

(b) Principal Account. On or before the fifth (5th) Business Day preceding each August 1 on which the principal of the Bonds becomes due and payable, and at maturity, the Trustee shall transfer and 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 Bonds. No such deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next August 1 on all of 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 as it shall become due and payable.

(c) Sinking Account. No later than the fifth (5th) Business Day preceding each August 1 on which any Term Bond becomes subject to mandatory sinking account redemption, the Trustee shall transfer and 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 to be redeemed on such August 1. No such deposit need be made to the Sinking Account if the amount contained therein is at least equal to the Sinking Account payments to become due on the next August 1 on all of the Outstanding Bonds. 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 redemption or purchase pursuant to Section 2.03(b).

(d) Reserve Account. There is hereby established in the Debt Service Fund a separate account known as the "Reserve Account" solely as security for payments payable by the Successor Agency pursuant to this Section 4.03, which shall be held by the Trustee in trust for the benefit of the Owners of the 2016 Bonds. The Reserve Requirement for the 2016 Bonds will be satisfied by the delivery of the 2016 Reserve Policy by the 2016 Bond Insurer on the Closing Date with respect to the 2016 Bonds. The Successor Agency will have no obligation to replace the 2016 Reserve Policy or to fund the Reserve Account with cash if, at any time that the 2016 Bonds are Outstanding, amounts are not available under the 2016 Reserve Policy or if any rating with respect to the 2016 Bond Insurer is downgraded or revoked.

All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in the event of

any deficiency at any time in any of such accounts or for the retirement of all the 2016 Bonds then Outstanding.

The Trustee shall comply with all documentation relating to the 2016 Reserve Policy as shall be required to maintain the 2016 Reserve Policy in full force and effect and as shall 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).

(e) Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to Section 2.03(a), other than mandatory Sinking Account redemption of Term Bonds, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Successor Agency pursuant to Section 2.03(a) for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date pursuant to Section 2.03(a). 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 to be redeemed pursuant to Section 2.03(a) on the date set for such redemption, other than mandatory Sinking Account redemption of Term Bonds. Interest due on Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account.

ARTICLE V

OTHER COVENANTS OF THE SUCCESSOR AGENCY

Section 5.01. Punctual Payment. The Successor Agency shall punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds together with the premium thereon, if any, in strict conformity with the terms of the Bonds and of this Indenture. The Successor Agency shall faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures and the Bonds. Nothing herein contained shall prevent the Successor Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to herein.

Section 5.02. Limitation on Additional Indebtedness; Against Encumbrances. The Successor Agency covenants that it will not issue any bonds, notes, or other obligations that are payable from or secured by a lien on Tax Revenues that is superior to the lien under this Indenture. The Successor Agency may issue bonds or other obligations to refund all of its Outstanding Bonds provided that all of such Outstanding Bonds are defeased in accordance with Section 9.03 hereof. The Successor Agency may issue Parity Debt to refund a portion of the Outstanding Bonds provided that with respect to any such refunding (i) annual debt service on such Parity Debt, as applicable, is lower than annual debt service on the obligations being refunded during every year the obligations would otherwise be outstanding (ii) the final maturity of any such Parity Debt does not exceed the final maturity of the obligations being refunded, (iii) the interest rate on the Parity Debt shall be fixed on the date of issuance of the Parity Debt, and (iv) principal payments shall be on August 1 and interest payments on August 1 and February 1. Nothing herein shall prevent the Successor Agency from issuing Subordinate Debt.

Section 5.03. Extension of Payment. The Successor Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any Bond or claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding the Bonds or claims for interest in any other manner. In case the maturity of any such Bond or claim for interest shall be extended or funded, whether or not with the consent of the Successor Agency, such Bond or claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Section 5.04. Payment of Claims. The Successor Agency shall promptly 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 Successor Agency or upon the Tax Revenues or other amounts pledged to the payment of the Bonds, or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing herein contained shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said claims.

Section 5.05. Books and Accounts; Financial Statements. The Successor Agency shall at all times keep, or cause to be kept, proper and current books and accounts in which accurate

entries are made of the financial transactions and records of the Successor Agency. Within [one hundred eighty (180)] days after the close of each Fiscal Year an Independent Certified Public Accountant shall prepare an audit of the financial transactions and records of the Successor Agency for such Fiscal Year. To the extent permitted by law, such audit may be included within the annual audited financial statements of the City. The Successor Agency shall furnish a copy of such financial statements to any Owner upon reasonable request of such Owner and at the expense of such Owner. The Trustee shall have no duty to review such audits.

Section 5.06. Protection of Security and Rights of Owners. The Successor Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the Closing Date with respect to the 2016 Bonds, the 2016 Bonds shall be incontestable by the Successor Agency.

Section 5.07. Payments of Taxes and Other Charges. Except as otherwise provided herein, the Successor 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 Successor Agency or the properties then owned by the Successor Agency in the Project Area, or upon the revenues therefrom when the same shall become due. Nothing herein contained shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said taxes, assessments or charges. The Successor Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Project Area or any part thereof.

Section 5.08. Compliance with the Law; Recognized Obligation Payment Schedules.

(a) The Successor Agency shall comply with all of the requirements of the Law. Pursuant to Section 34177 of the Law, not later than each date a Recognized Obligation Payment Schedule is due, the Successor Agency shall submit to the Oversight Board and the State Department of Finance, a Recognized Obligation Payment Schedule. The Successor Agency shall take all actions required under the Law to include in the Recognized Obligation Payment Schedule for each Bond Year (i) Annual Debt Service on the Bonds (ii) all amounts (if any) required to cure any deficiency in the Reserve Account and (iii) all amounts due and owing to the 2016 Bond Insurer hereunder, so as to enable the Santa Cruz County Auditor-Controller to distribute such amounts from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 and June 1, as applicable. Within

____ days following the Closing Date or in any event prior to June 1, 2016, the Successor Agency shall cause the Recognized Obligation Payment Schedule for Fiscal Year 2016-17 to be amended to provide that (i) Tax Revenues to be received by the Successor Agency on June 1, 2016 will be sufficient to pay principal of and interest on the 2016 Bonds due on August 1, 2016; and (ii) Tax Revenues to be received by the Successor Agency on January 2, 2017 will be sufficient to pay principal of and interest on the 2016 Bonds due on February 1, 2017 and August 1, 2017.

(b) In order to ensure that amounts are available for the Trustee to pay Annual Debt Service on all Outstanding Bonds and all amounts due and owing to the 2016 Bond Insurer hereunder on a timely basis, not later than February 1 of each year (or such other time as may be required by the Dissolution Act), commencing February 1, 2017 for the Bond Year beginning on August 2, 2017, the Successor Agency shall submit an Oversight Board-approved Recognized

Obligation Payment Schedule to the State Department of Finance and to the Santa Cruz County Auditor-Controller that shall include:

(i) all of the debt service due on all Outstanding Bonds on February 1 and August 1 of the Bond Year ending on August 1 of the following calendar year, which amount shall be distributed in full to the Successor Agency on January 2 of such year, and

(ii) any amount required to cure any deficiency in the Reserve Account pursuant to this Indenture (including any amounts required due to a draw on the Qualified Reserve Account Credit Instrument as well as all amounts due and owing to the 2016 Bond Insurer hereunder).

In addition to the amounts described in clauses (i) and (ii) of the previous paragraph, if the amount of Tax Revenues distributed to the Successor Agency on January 2 in any year is less than the sum of the amounts specified in clauses (i) and (ii) of the previous paragraph, then not later than February 1 of such year (or on such other date as may be required by the Dissolution Act), the Successor Agency shall submit an Oversight Board-approved Recognized Obligation Payment Schedule to the State Department of Finance and to the Santa Cruz County Auditor-Controller that shall include the balance due to the Successor Agency, which amount shall be distributed in full to the Successor Agency on June 1 of such year.]

(c) In the event the provisions set forth in the Dissolution Act as of the Closing Date of the 2016 Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency covenants that it shall use commercially reasonable efforts to take all actions necessary to ensure the Agency receives on January 2 of each year from moneys deposited into the Redevelopment Property Tax Trust Fund, sufficient Tax Revenues to pay all Annual Debt Service due on all Outstanding Bonds during such Bond Year.

(d) If any amounts then due and payable to the 2016 Bond Insurer under this Indenture are not included on any current Recognized Obligation Payment Schedule and the Successor Agency is then legally permitted to amend such Recognized Obligation Payment Schedule, the Successor Agency will submit to the Oversight Board and the State Department of Finance a request to amend such Recognized Obligation Payment Schedule to include such amounts then due and payable to the 2016 Bond Insurer.

(e) The Successor Agency will not submit to the Oversight Board and the State Department of Finance a request for the final amendment permitted for its Last and Final Recognized Obligation Payment Schedule pursuant to Section 34191.6 without the prior written consent of the 2016 Bond Insurer, unless all amounts that could become due and payable to the 2016 Bond Insurer under this Indenture would be included as a line item on the Last and Final Recognized Obligation Payment Schedule following approval of the requested amendment.

Section 5.09. Dissolution Act Invalid; Maintenance of Tax Revenues. In the event that the applicable property tax revenues provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid and, in place of the invalid provisions, provisions of the

Law or the equivalent become applicable to the Bonds, the Successor Agency shall comply with all requirements of the Law or the equivalent to ensure 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, in the case of amounts payable by the State, appropriate officials of the State.

Section 5.10. Rebate Fund.

(a) Establishment. The Trustee shall establish a separate account for the Tax-Exempt Bonds designated the "Rebate Fund." The Trustee shall also establish a new account within such Fund for any additional series of Tax-Exempt Bonds. Within the Rebate Fund, the Trustee shall maintain such other accounts as it is instructed by the Successor Agency as shall be necessary in order to comply with the terms and requirements of the Tax Certificate. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds will not be adversely affected, the Successor Agency shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. Subject to the transfer provisions provided in Subsections (C) and (G) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury, and no other person shall have any rights in or claim to such money. All amounts on deposit in the Rebate Fund for the Tax-Exempt Bonds shall be governed by this Section and the Tax Certificate for the Bonds, unless and to the extent that the Successor Agency deliver to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds will not be adversely affected if such requirements are not satisfied. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Successor Agency including supplying all necessary information in the manner provided in the Tax Certificate, shall not be required to take any actions thereunder, in the absence of written directions by the Successor Agency, and shall have no liability or responsibility to enforce compliance by the Successor Agency with the terms of the Tax Certificate. The Trustee shall have no responsibility to make any independent calculations or determinations or to review the Successor Agency's calculations hereunder.

(b) Computation. Within 45 days of the end of each fifth Bond Year (as defined in the Tax Certificate), the Successor Agency shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations, for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebate Amount"). The Successor Agency shall not be required to calculate the Rebate Amount, and the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this Subsection (B), with respect to all or a portion of the proceeds of the Tax-Exempt Bonds (including amounts treated as proceeds of the Tax-Exempt Bonds) (i) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Regulations, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said Sections is applicable, (ii) to the extent such proceeds are subject to an election by the Successor Agency under Section 148(f)(4)(C)(vii) of the Code to pay a 1½% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not

satisfied, or (iii) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a "bona fide debt service fund." In such event, and with respect to such amounts, the Successor Agency shall provide written direction to the Trustee that the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this Subsection (B). The Successor Agency shall obtain expert advice as to the Rebate Amount to comply with this Section.

(c) Transfer. Within 55 days of the end of each fifth Bond Year, upon the written request of the Successor Agency an amount shall be deposited to the Rebate Fund by the Trustee from deposits by the Successor Agency from any moneys legally available for such purpose (as specified by the Successor Agency in the aforesaid written Request), if and to the extent required, so that the balance in the Rebate Fund shall equal the Rebate Amount so calculated in accordance with Subsection (B). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written request of the Successor Agency, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Debt Service Fund.

(d) Payment to the Treasury. The Trustee shall pay, as directed by request of the Successor Agency to the United States Treasury, out of amounts in the Rebate Fund, subject to the exceptions contained in Subsection (B),

(i) not later than 60 days after the end of (x) the fifth Bond Year, and (y) each applicable fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the Rebate Amount (calculated as of the end of such Bond Year) and all previous rebate payments; and

(ii) not later than 60 days after the payment of all the Tax-Exempt Bonds, an amount equal to 100% of the Rebate Amount calculated as of the date of such payment and any income attributable to the Rebate Amount determined to be due and payable, computed in accordance with Section 1.148-3 of the Treasury Regulations.

(e) Deficiencies. In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Successor Agency shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due.

(f) Withdrawals of Excess Amounts. In the event that immediately following the calculation required by Subsection (B) of this Section, but prior to any deposit made under said Subsection, the amount on deposit in the Rebate Fund exceeds the Rebate Amount calculated in accordance with said Subsection, upon written instructions from the Successor Agency, the Trustee shall withdraw the excess from the Rebate Fund and credit such excess to the Interest Account of the Debt Service Fund.

(g) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after (i) redemption and payment in full of the Tax-Exempt Bonds, and (ii) the payments described in

Subsection (D) above being made, may be withdrawn by the Trustee and remitted to the Successor Agency and utilized in any manner by the Successor Agency, free and clear of the lien of this Indenture.

(h) Rebate Payments. Each payment required to be made pursuant to Subsection (D) shall be made to the Internal Revenue Service Center, Ogden, Utah, on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038 T, which shall be completed by the Successor Agency, or shall be made in such other manner as provided under the Code.

(i) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to remit the Rebate Amount to the United States and to comply with the requirements of this Section, Section 5.11 hereof and the Tax Agreement shall survive the defeasance or payment in full of the Tax-Exempt Bonds.

(j) Recordkeeping. The Successor Agency shall retain records of all determinations made hereunder until six years after the complete retirement of the Bonds, or as otherwise required in accordance with the Tax Agreement.

Section 5.11. Tax Covenants.

(a) The Successor Agency covenants that it shall not take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Tax-Exempt Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code. Without limiting the generality of the foregoing, the Successor Agency covenants that it will comply with the requirements of the Tax Certificate, which is incorporated herein as if fully set forth herein. This covenant shall survive the payment in full and the defeasance of the Tax-Exempt Bonds.

(b) In the event that at any time the Successor Agency is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under this Indenture, the Successor Agency shall so instruct the Trustee in a Written Request of the Successor Agency accompanied by a supporting Opinion of Bond Counsel, and the Trustee shall take such action as may be directed by the Successor Agency.

(c) Notwithstanding any provisions of this Section, if the Successor Agency shall provide to the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Tax-Exempt Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

Section 5.12. Continuing Disclosure. The Successor Agency hereby 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 this Indenture, failure of the Successor Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default

hereunder. However, any Participating Underwriter or any holder or beneficial owner of the 2016 Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Successor Agency to comply with its obligations under this Section 5.15.

Section 5.13. Further Assurances. The Successor Agency will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

Section 5.14. Provisions Relating to the 2016 Insurance Policy and the 2016 Reserve Policy. So long as the 2016 Insurance Policy remains in effect, the Successor Agency and the Trustee shall comply with all of the terms and provisions set forth in Exhibit C relating to the 2016 Bond Insurer and the 2016 Insurance Policy.

So long as the 2016 Reserve Policy remains in effect, the Successor Agency and the Trustee shall comply with all of the terms and provisions set forth in Exhibit D relating to the 2016 Bond Insurer and the 2016 Reserve Policy.

ARTICLE VI
THE TRUSTEE

Section 6.01. Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to the occurrence of an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants, duties or obligations shall be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The Successor Agency may remove the Trustee at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time the Successor Agency has knowledge that the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. In each case such removal shall be accomplished by the giving of at least 30 days' written notice of such removal by the Successor Agency to the Trustee, whereupon the Successor Agency shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Successor Agency and by giving the Owners notice of such resignation by first class mail, postage prepaid, at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Successor Agency shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction at the expense of the Successor Agency for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing, acknowledging and delivering to the Successor Agency and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at

the Written Request of the Successor Agency or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Successor Agency shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Successor Agency shall mail a notice of the succession of such Trustee to the trusts hereunder to the Owners at their respective addresses shown on the Registration Books. If the Successor Agency fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Successor Agency.

(e) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a financial institution having a corporate trust office in the State, having (or in the case of a corporation, national banking association or trust company included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such financial institution publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such financial institution shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

The Successor Agency will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this subsection (e), so long as any Bonds are Outstanding.

Section 6.02. Merger or Consolidation. Any bank, national banking association or trust company into which the Trustee may be merged or converted or with which may be consolidated or any bank, national banking association or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, national banking association or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, national banking association or trust company shall be eligible under subsection (e) of Section 6.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 6.03. Liability of Trustee.

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Successor Agency, and the Trustee shall not assume responsibility for the correctness of the same, nor make any representations as to the validity or sufficiency of this

Indenture or of the security for the Bonds or the tax status of interest thereon nor shall incur any responsibility in respect thereof, other than as expressly stated herein. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or intentional misconduct. The Trustee shall not be liable for the acts of any agents of the Trustee selected by it with due care. The Trustee and its officers and employees may become the Owner of any Bonds with the same rights it would have if they were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made by a responsible employee or officer, unless the Trustee shall have been negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall not be liable for any action taken by it and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture, except for actions arising from the negligence or intentional misconduct of the Trustee. The permissive right of the Trustee to do things enumerated hereunder shall not be construed as a mandatory duty.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default hereunder unless and until a responsible officer shall have actual knowledge thereof, or shall have received written notice thereof from the Successor Agency at its Principal Corporate Trust Office. In the absence of such actual knowledge or notice, the Trustee may conclusively assume that no Event of Default has occurred and is continuing under this Indenture. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by any other party of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee may rely conclusively on the Successor Agency's certificates to establish the Successor Agency's compliance with its financial covenants hereunder, including, without limitation, its covenants regarding the deposit of Tax Revenues into the Redevelopment Obligation Retirement Fund and the investment and application of moneys on deposit in the Redevelopment Obligation Retirement Fund (other than its covenants to transfer such moneys to the Trustee when due hereunder).

The Trustee shall have no liability or obligation to the Bondowners with respect to the payment of debt service on the Bonds by the Successor Agency or with respect to the observance

or performance by the Successor Agency of the other conditions, covenants and terms contained in this Indenture, or with respect to the investment of any moneys in any fund or account established, held or maintained by the Successor Agency pursuant to this Indenture or otherwise.

No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers. The Trustee shall be entitled to interest on all amounts advanced by it at the maximum rate permitted by law.

The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys or receivers and the Trustee shall not be responsible for any intentional misconduct or negligence on the part of any agent, attorney or receiver appointed with due care by it hereunder.

The Trustee shall have no responsibility, opinion, or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds.

Before taking any action under Article VIII or this Article at the request of the Owners the Trustee may require that a satisfactory indemnity bond be furnished by the Owners for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken.

The Trustee will not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to any project refinanced with the proceeds of the Bonds, malicious mischief, condemnation, and unusually severe weather and/or occurrences beyond the control of the Trustee.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Indenture and delivered using Electronic Means ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder); provided, however, that the Successor Agency shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Successor Agency whenever a person is to be added or deleted from the listing. If the Successor Agency elects to act upon such Instructions, the Trustee's understanding

of such Instructions shall be deemed controlling. The Successor Agency understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that the directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The Successor Agency shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Successor Agency and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Successor Agency. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Successor Agency agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Successor Agency; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

The Trustee shall not be responsible for or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

Section 6.04. Right to Rely on Documents and Opinions. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion or other paper or document believed by it to be genuine and to have been signed or prescribed by the proper party or parties, and shall not be required to make any investigation into the facts or matters contained thereon. The Trustee may consult with counsel, including, without limitation, counsel of or to the Successor Agency, with regard to legal questions, and, in the absence of negligence or intentional misconduct by the Trustee, the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee hereunder in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto is established to the satisfaction of the Trustee.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the Successor Agency, which shall be full warrant to the Trustee for any action taken or suffered under the provisions of this Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may

require such additional evidence as to it may deem reasonable. The Trustee may conclusively rely on any certificate or report of any Independent Accountant or Independent Redevelopment Consultant appointed by the Successor Agency.

Section 6.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times upon reasonable notice to the inspection of the Successor Agency and any Owner, and their agents and representatives duly authorized in writing, during regular business hours and under reasonable conditions.

Section 6.06. Compensation and Indemnification. The Successor Agency shall pay to the Trustee from time to time reasonable compensation for all services rendered under this Indenture in accordance with the letter proposal from the Trustee approved by the Successor Agency and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including the allocated costs and disbursement of in-house counsel to the extent such services are not redundant with those provided by outside counsel), agents and employees, incurred in and about the performance of its powers and duties under this Indenture. The Trustee shall have a first lien on the Tax Revenues and all funds and accounts held by the Trustee hereunder to secure the payment to the Trustee of all fees, costs and expenses, including reasonable compensation to its experts, attorneys and counsel (including the allocated costs and disbursement of in-house counsel to the extent such services are not redundant with those provided by outside counsel).

The Successor Agency further covenants and agrees to indemnify, defend and save the Trustee and its officers, directors, agents and employees, harmless from and against any loss, expense and liabilities, including legal fees and expenses, which it may incur arising out of or in connection with the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability, but excluding any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. The obligations of the Successor Agency and the rights of the Trustee under this Section 6.06 shall survive resignation or removal of the Trustee under this Indenture and payment of the Bonds and discharge of this Indenture.

Section 6.07. Deposit and Investment of Moneys in Funds. Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Costs of Issuance Account shall be invested by the Trustee in Permitted Investments as directed by the Successor Agency in the Written Request of the Successor Agency filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such Written Request of the Successor Agency, the Trustee shall hold such moneys uninvested. The Trustee shall be entitled to rely conclusively upon the written instructions of the Successor Agency directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. Moneys in the Redevelopment Obligation Retirement Fund may be invested by the Successor Agency in any obligations in which the Successor Agency is legally authorized to invest its funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by

the Trustee hereunder shall be deposited in the Interest Account. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made at the direction of the Successor Agency or otherwise made pursuant to this Section.

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

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by this Indenture. Except as specifically provided in this Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Successor Agency for earnings derived from funds that have been invested.

The Successor Agency covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by this Indenture or the Code) at Fair Market Value. The Trustee has no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Successor Agency in any Written Certificate or Written Request of the Successor Agency. Trustee shall be deemed to have complied with such valuation through use of its automated pricing service as reflected on its trust accounting statements.

Section 6.08. Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which accurate entries shall be made of all transactions of the Trustee relating to the proceeds of the Bonds made by it and all funds and accounts held by the Trustee established pursuant to this Indenture. Such books of record and account shall be available for inspection by the Successor Agency upon reasonable prior notice, at reasonable hours and under reasonable circumstances. The Trustee shall furnish to the Successor Agency, at least monthly, an accounting of all transactions in the form of its customary statements relating to the proceeds of the Bonds and all funds and accounts held by the Trustee pursuant to this Indenture.

Section 6.09. Appointment of Co-Trustee or Agent. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under this Indenture, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or

necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate co-trustee. The following provisions of this Section 6.09 are adopted to these ends.

In the event that the Trustee shall appoint an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them; provided, however, in no event shall the Trustee be responsible or liable for the acts or omissions of any co-trustee.

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

Section 6.10. Other Transactions with Successor Agency. The Trustee, either as principal or agent, may be engaged in or be interested in any financial or other transaction with the Successor Agency.

ARTICLE VII
MODIFICATION OR AMENDMENT OF THIS INDENTURE

Section 7.01. Amendment With And Without Consent of Owners. This Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption and 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 Successor Agency in this Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers herein reserved to or conferred upon the Successor Agency; or
- (b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Indenture, or in any other respect whatsoever as the Successor Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not, in the reasonable determination of the Successor Agency, materially adversely affect the interests of the Owners; or
- (c) to amend any provision hereof relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of Bond Counsel; or
- (d) to provide for the issuance of Parity Debt pursuant to a Supplemental Indenture, as such issuance is authorized by Section 5.02.

Except as set forth in the preceding paragraph, this Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding with the consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee; provided that so long as the 2016 Insurance Policy is in effect with respect to Bonds, the 2016 Bond Insurer may give consent to amendments in place of the Owners of such Bonds. 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 Successor 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, or (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent. In addition, the Trustee shall be entitled to an opinion of counsel concerning the Supplemental Indenture's lack of any material adverse effect on the Owners.

Section 7.02. Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to this Article VII, this Indenture shall be

deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced hereunder 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 this Indenture for any and all purposes.

Section 7.03. Endorsement or Replacement of Bonds After Amendment. After the effective date of any amendment or modification hereof pursuant to this Article VII, the Successor Agency may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the Successor Agency, as to such amendment or modification and in that case upon demand of the Successor Agency the Owners of such Bonds shall present such Bonds for that purpose at the Principal Corporate Trust Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the Successor Agency may determine that new Bonds shall be prepared at the expense of the Successor Agency and executed in exchange for any or all of the Bonds, and in that case, upon demand of the Successor Agency, the Owners of the Bonds shall present such Bonds for exchange at the Trust Office of the Trustee, without cost to such Owners.

Section 7.04. Amendment by Mutual Consent. The provisions of this Article VII shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner, provided that due notation thereof is made on such Bond.

Section 7.05. Trustee's Reliance. The Trustee may conclusively rely, and is protected in relying, upon a Written Certificate of the Successor Agency and an opinion of Bond Counsel stating that all requirements of this Indenture relating to the amendment or modification hereof have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Bond Owners.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Section 8.01. Events of Default and Acceleration of Maturities. The following events shall constitute Events of Default hereunder:

- (a) if default shall be made by the Successor Agency in the due and punctual payment of the principal of or interest on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) if default shall be made by the Successor Agency in the observance of any of the covenants, agreements or conditions on its part in this Indenture or in the Bonds or any Parity Debt Instrument contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of sixty (60) days following receipt by the Successor Agency of written notice from the Trustee or any Owner of the occurrence of such default, provided that if in the reasonable opinion of the Successor Agency the failure stated in the notice can be corrected, but not within such 60 day period, such failure will not constitute an event of default if corrective action is instituted by the Successor Agency within such 60 day period and the Successor Agency thereafter diligently and in good faith cures such failure in a reasonable period of time; or
- (c) If the Successor Agency files a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction will approve a petition seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will approve a petition, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Successor Agency or of the whole or any substantial part of its property.

If an Event of Default pursuant to 8.01(a) or (c) has occurred and is continuing, the Trustee may, or, 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 this Indenture or in the Bonds to the contrary notwithstanding, and (b) the Trustee shall, subject to the provisions of Section 8.06, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity.

Immediately upon receiving notice or actual knowledge of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Successor Agency by telephone promptly 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 (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion

may, also give such notice to the Owners by mail, 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 Successor 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), and the reasonable fees and expenses of the Trustee, (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) 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 Trustee shall promptly give written notice of the foregoing to the Owners of all Bonds then Outstanding, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Successor 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.

Section 8.02. Application of Funds Upon Acceleration. All of the Tax Revenues and all sums in the funds and accounts established and held by the Trustee hereunder upon the date of the declaration of acceleration as provided in Section 8.01, and all sums thereafter received by the Trustee hereunder, shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth in this Article VIII, including reasonable compensation to its agents, attorneys (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and counsel and any outstanding fees, expenses of the Trustee; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the net effective rate then borne by the Outstanding Bonds (to the extent that such interest on overdue installments of principal and interest shall have been collected), 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 principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest; and

Third, to the payment of all amounts due and owing to the 2016 Bond Insurer hereunder.

Section 8.03. 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 hereunder, 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 hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Section 8.04. Limitation on Owner's Right to Sue. No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this 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 hereinbefore 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 (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder; 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 this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein 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 interest on such Bond as herein provided, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

Section 8.05. Non-Waiver. Nothing in this Article VIII or in any other provision of this Indenture or in the Bonds, shall affect or impair the obligation of the Successor Agency, which is absolute and unconditional, to pay from the Tax Revenues and other amounts pledged hereunder, the principal of and interest on the Bonds to the respective Owners on the respective Interest Payment Dates, as herein provided, or affect or impair the right of action, which is also absolute

and unconditional, of the Owners or the Trustee to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

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

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

Section 8.06. Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is hereby appointed (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, *provided, however,* the Trustee shall have no duty or obligation to exercise any such right or remedy unless it has been indemnified to its satisfaction from any loss, liability or expense (including fees and expenses of its outside counsel and the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel).

Section 8.07. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder 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.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Benefits Limited to Parties. Nothing in this Indenture, expressed or implied, is intended to give to any person other than the Successor Agency, the Trustee, the 2016 Bond Insurer and the Owners, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture contained by and on behalf of the Successor Agency shall be for the sole and exclusive benefit of the Trustee, the 2016 Bond Insurer and the Owners.

Section 9.02. Successor is Deemed Included in All References to Predecessor. Whenever in this Indenture or any Supplemental Indenture either the Successor Agency or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the Successor Agency or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 9.03. Defeasance of Bonds. If the Successor 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 well and truly paying or causing to be paid the principal of and interest on all or the applicable portion of Outstanding Bonds, as and when the same become due and payable; or
- (ii) by irrevocably depositing with the Trustee or an escrow holder, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to this Indenture, is fully sufficient to pay all or a portion of Outstanding Bonds, including all principal and interest, or;
- (iii) by irrevocably depositing with the Trustee or an escrow holder, 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 the funds and accounts established pursuant to this Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds or a portion thereof (including all principal and interest) at or before maturity; or
- (iv) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the Successor Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in this Indenture and all other obligations of the Trustee and the Successor Agency under this Indenture shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (a) the covenants of the Successor Agency hereunder with respect to the Code, (b) the obligation of the Trustee to transfer and exchange Bonds hereunder, (c) the obligations of the Successor Agency

under Section 6.06 hereof, and (d) the obligation of the Successor Agency to pay or cause to be paid to the Owners, from the amounts so deposited with the Trustee, all sums due thereon and to pay the Trustee all fees, expenses and costs of the Trustee. In the event the Successor Agency shall, pursuant to the foregoing provision, 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 Successor 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 Successor Agency has determined to pay and discharge in part.

In the case of a defeasance or payment of all of the Bonds Outstanding, any funds thereafter held by the Trustee which are not required for said purpose or for payment of amounts due the Trustee pursuant to Section 6.06 shall be paid over to the Successor Agency for deposit in the Redevelopment Obligation Retirement Fund.

Section 9.04. Execution of Documents and Proof of Ownership by Owners. Any request, consent, declaration or other instrument which this Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing.

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

The ownership of Bonds and the amount, maturity, number and date of ownership thereof shall be proved by the Registration Books.

Any demand, request, direction, consent, declaration or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the Successor Agency or the Trustee and in accordance therewith, provided, however, that the Trustee shall not be deemed to have knowledge that any Bond is owned by or for the account of the Successor Agency unless the Successor Agency is the registered Owner or the Trustee has received written notice that any other registered Owner is such an affiliate.

Section 9.05. Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the Successor Agency or the City (but excluding Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Upon request of the Trustee, the Successor Agency and the City shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

Section 9.06. Waiver of Personal Liability. No member, officer, agent or employee of the Successor Agency shall be individually or personally liable for the payment of the principal of or interest on the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 9.07. Destruction of Cancelled Bonds. Whenever in this Indenture provision is made for the surrender to the Trustee of any Bonds which have been paid or cancelled pursuant to the provisions of this Indenture, the Trustee shall destroy such bonds and upon request of the Successor Agency provide the Successor Agency a certificate of destruction. The Successor Agency shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to.

Section 9.08. Notices. Any notice, request, demand, communication or other paper shall be sufficiently given and shall be deemed given when delivered or upon receipt when mailed by first class, registered or certified mail, postage prepaid, or sent by telegram, addressed as follows:

If to the Successor Agency: City of Watsonville (as Successor Agency)
250 Main Street
Watsonville, CA 95076
Attn: Administrative Services Director

If to the Trustee: U.S. Bank Global Corporate Trust Services
1 California Street, Suite 1000
San Francisco, CA 94111
Attn: Corporate Trust Services

If to the 2016 Insurer:

Section 9.09. Partial Invalidity. If any Section, paragraph, sentence, clause or phrase of this Indenture shall for any reason be held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of this Indenture. The Successor Agency hereby declares that it would have adopted this Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issue of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Indenture may be held illegal, invalid or unenforceable. If, by reason of the judgment of any court, the Trustee is rendered unable to perform its duties hereunder, all such duties and all of the rights and powers of the Trustee hereunder shall, pending appointment of a successor Trustee in accordance with the provisions of Section 6.01 hereof, be assumed by and vest in the Treasurer of the County of Santa Cruz, on behalf of the Successor Agency, in trust for the benefit of the Owners. The Successor Agency covenants for the direct benefit of the Owners that its Treasurer in such case shall be vested with all of the rights and powers of the Trustee hereunder, and shall assume all of the responsibilities and perform all of the duties of the Trustee hereunder,

in trust for the benefit of the Bonds, pending appointment of a successor Trustee in accordance with the provisions of Section 6.01 hereof.

Section 9.10. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for two (2) years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the Successor Agency as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the Successor Agency for the payment of the principal of and interest and redemption premium (if any) on of such Bonds.

Section 9.11. Execution in Counterparts. This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 9.12. Governing Law. This Indenture shall be construed and governed in accordance with the laws of the State.

IN WITNESS WHEREOF, the SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE, has caused this Indenture to be signed in its name by the chief administrative officer of the Successor Agency, and attested by the Secretary of the Governing Board, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

**SUCCESSOR AGENCY FOR
REDEVELOPMENT AGENCY OF THE CITY
OF WATSONVILLE**

By: _____
City Manager
City of Watsonville

ATTEST:

Secretary, Governing Board

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

EXHIBIT A

(FORM OF BOND)

SUCCESSOR AGENCY FOR THE
REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE
2016 TAX ALLOCATION REFUNDING BOND[, SERIES A/TAXABLE SERIES B]

INTEREST RATE: MATURITY DATE: DATED DATE: CUSIP:
August 1, , 2016

REGISTERED OWNER: CEDE & CO.

PRINCIPAL SUM:

The SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE, a public entity, duly created and existing under and by virtue of the laws of the State of California (the "Successor Agency"), for value received hereby promises to pay to the Registered Owner stated above, or registered assigns (the "Registered Owner"), on the Maturity Date stated above (subject to any right of prior redemption hereinafter provided for), the Principal Sum stated above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond, unless (i) this Bond is authenticated on or before an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month immediately preceding an Interest Payment Date (the "Record Date"), in which event it shall bear interest from such Interest Payment Date, or (ii) this Bond is authenticated on or before _____, in which event it shall bear interest from the Dated Date above; provided however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond, until payment of such Principal Sum in full, at the Interest Rate per annum stated above, payable semiannually on February 1 and August 1 in each year, commencing _____ (each an "Interest Payment Date"), calculated on the basis of 360-day year comprised of twelve 30-day months. Principal hereof and premium, if any, upon early redemption hereof are payable upon surrender of this Bond at the principal corporate trust office of U.S. Bank National Association, Los Angeles, California, as trustee (the "Trustee"), or at such other place as designated by the Trustee (the "Corporate Trust Office"). Interest hereon (including the final interest payment upon maturity or earlier redemption hereof) is payable by check of the Trustee mailed by first class mail, postage prepaid, on the Interest Payment Date to the Registered Owner hereof at the Registered Owner's address as it appears on the registration books maintained by the Trustee as of the Record Date for which such Interest Payment Date occurs; provided however, that payment of interest may be by wire transfer to an account in the United States of America to any registered owner of Bonds in the aggregate principal amount of \$1,000,000 or more upon written instructions of any such registered owner filed with the Trustee for that purpose prior to the Record Date preceding the applicable Interest Payment Date.

This Bond is one of a duly authorized issue of bonds of the Successor Agency designated as "Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds[, Series A/Taxable Series B]" (the "Bonds"), in an aggregate principal amount of \$_____, all of like tenor and date (except for such variation, if any, as may be required to designate varying series, numbers, maturities, interest rates, redemption and other provisions) and all issued pursuant to the provisions of Section 34177.5 of the Health and Safety Code of the State of California and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Refunding Law") and pursuant to an Indenture of Trust, dated as of _____ 1, 2016, entered into by and between the Successor Agency and the Trustee (the "Indenture"), authorizing the issuance of the Bonds. Additional bonds or other obligations may also be issued on a parity with the Bonds, but only subject to the terms of the Indenture. Reference is hereby made to the Indenture (copies of which are on file at the office of the Successor Agency) and all indentures supplemental thereto and to the Law (as defined in the Indenture) and the Refunding Law for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Tax Revenues (as that term is defined in the Indenture), and the rights thereunder of the registered owners of the Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the Successor Agency thereunder, to all of the provisions of which Indenture the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the Successor Agency for the purpose of providing funds to refund its 2004 Bonds (as defined in the Indenture) and to pay certain expenses of the Successor Agency in issuing the Bonds. The Bonds shall be secured and payable, including redemption prior to maturity, as provided in the Indenture.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

The Bonds are issuable as fully registered Bonds without coupons in denominations of \$5,000 and any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Indenture, Bonds may be exchanged for a like aggregate principal amount of Bonds of other Authorized Denominations and of the same maturity.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Corporate Trust Office of the Trustee, but only in the manner and subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer a new fully registered Bond or Bonds, of any Authorized Denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor. The Trustee may refuse to transfer or exchange (a) any Bond during the fifteen (15) days prior to the date established for the selection of Bonds for redemption, or (b) any Bond selected for redemption.

The Successor Agency and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Successor Agency and the Trustee shall not be affected by any notice to the contrary.

The rights and obligations of the Successor Agency and the registered owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Indenture, but 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 Successor 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 herein of any Bond without the express written consent of the registered 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.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Successor Agency or the Trustee for registration of transfer, exchange, or payment, and any bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This Bond is not a debt of the County of Santa Cruz, the State of California, or any of its political subdivisions, and neither said County, said State, nor any of its political subdivisions is liable hereon, nor in any event shall this Bond be payable out of any funds or properties other than those of the Successor Agency. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time and manner as required by the Law, the Refunding Law and the laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the Successor Agency, does not exceed any limit prescribed by the Law, the Refunding Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the Trustee's Certificate of Authentication hereon shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the Successor Agency to the Redevelopment Agency of the City of Watsonville has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its chief administrative officer and attested by the Secretary of the Governing Board, as of the Dated Date set forth above.

SUCCESSOR AGENCY FOR THE
REDEVELOPMENT AGENCY OF THE CITY OF
WATSONVILLE

By: _____

City Manager
City of Watsonville

ATTEST:

Secretary, Governing Board

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Authentication Date: _____

U.S. BANK NATIONAL ASSOCIATION
as Trustee

By: _____
Authorized Signatory

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or Tax Regulations:

TEN COM --	as tenants in common	UNIF GIFT MIN ACT _____	Custodian _____
TEN ENT --	as tenants by the entireties	(Cust.)	(Minor)
JT TEN --	as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act _____	(State)
COMM PROP --	as community property		

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED THOUGH NOT IN THE LIST ABOVE

(FORM OF ASSIGNMENT)

For value received the undersigned hereby sells, assigns and transfers unto

(Name, Address and Tax Identification or Social Security Number of Assignee)
the within-registered Bond and hereby irrevocably constitute(s) and appoints(s)

____ attorney,
to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signatures Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor.

Note: The signatures(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

EXHIBIT B
DEBT SERVICE PAYMENT SCHEDULE

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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EXHIBIT C

PROVISIONS RELATING TO
THE 2016 BOND INSURANCE POLICY
AND THE
2016 BOND INSURER

EXHIBIT D

PROVISIONS RELATING TO
THE 2016 RESERVE POLICY
AND THE
2016 BOND INSURER

IRREVOCABLE REFUNDING INSTRUCTIONS

These IRREVOCABLE REFUNDING INSTRUCTIONS (these "Instructions") are given by the SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE (the "Successor Agency"), to U.S. Bank National Association, acting as Trustee for the hereinafter defined 2016 Bonds (the "2016 Trustee") and for each series of the hereinafter defined Prior Bonds (the "Prior Bonds Trustee").

WITNESSETH:

WHEREAS, the Successor Agency has determined that it is in its best financial interests at this time to issue its \$ _____ Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A and \$ _____ Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B (the "2016 Bonds") pursuant to an Indenture of Trust dated as of _____, 2016 (the "Indenture"), by and between the Successor Agency and the 2016 Trustee; and

WHEREAS, the proceeds of the 2016 Bonds will be used, in part, to refund the outstanding (i) Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Tax Allocation Bonds, Series A (the "Series A Prior Bonds"); (ii) Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Tax Allocation Bonds, Series B-1 (the "Series B-1 Prior Bonds"); and (iii) Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Taxable Tax Allocation Bonds, Series B-2 (the Series B-2 Prior Bonds" and collectively with the Series A Prior Bonds and the Series B-1 Prior Bonds, the "Prior Bonds") as more specifically set forth in Exhibit A hereto; and

WHEREAS, the Successor Agency wishes to give these Instructions to the 2016 Trustee and the Prior Bonds Trustee for the purpose of providing the terms and conditions relating to the deposit and application of moneys and securities to provide for the payment and redemption of all of the outstanding Prior Bonds;

NOW, THEREFORE, the Successor Agency hereby irrevocably instructs the 2016 Trustee and the Prior Bonds Trustee as follows:

Section 1. Redemption Fund. There is established an account held by the 2016 Trustee under the Indenture known as the "2004 Bonds Refunding Fund" (the "Refunding Fund"). Amounts deposited in the Refunding Fund are hereby irrevocably pledged as a special trust fund for the redemption of the Prior Bonds on _____, 2016 (the "Redemption Date").

Section 2. Deposit into the Refunding Fund. Concurrently with delivery of the 2016 Bonds, the Successor Agency shall cause to be delivered to the 2016 Trustee the amount of \$ _____ in immediately available funds for deposit into the Refunding Fund.

Section 3. Proceedings for Redemption of Prior Bonds. The Successor Agency hereby irrevocably directs the Prior Bonds Trustee, to redeem on the Redemption Date, the Prior Bonds, at a redemption price equal to the principal amount of the Prior Bonds to be redeemed as

set forth in Exhibit A, plus accrued and unpaid interest. The Prior Bonds Trustee acknowledges that the required notice of such redemption has heretofore been given on a timely basis.

Section 4. Application of Funds to Redeem Prior Bonds. The 2016 Trustee shall transfer to the Prior Bonds Trustee the amount of \$_____ from the Refunding Fund. The Prior Bonds Trustee shall deposit such funds into the following accounts and in the following amounts [and invest such funds in Federal Securities as provided in Section 5 below], in order to redeem the Prior Bonds on the Redemption Date, at the principal amount of the outstanding Prior Bonds set forth in Exhibit A, plus accrued and unpaid interest to the Redemption Date (the "Redemption Price"):

(a) To the Redemption Account held under the Series A Indenture (the "Series A Redemption Account"), the amount of \$_____. The Prior Bonds Trustee agrees that the [sum of the] amounts deposited in the Series A Redemption Account, [the Federal Securities and interest earned on such Federal Securities,] is an amount equal to the Redemption Price for the Series A Prior Bonds.

(b) To the Redemption Account held under the Series B-1 Indenture (the "Series B-1 Redemption Account"), the amount of \$_____. The Prior Bonds Trustee agrees that the [sum of the] amounts deposited in the Series B-1 Redemption Account, [the Federal Securities and interest earned on such Federal Securities,] is an amount equal to the Redemption Price for the Series B-1 Prior Bonds.

(c) To the Redemption Account held under the Series B-2 Indenture, the amount of \$_____ (the "Series B-2 Redemption Account" and together with the Series A Redemption Account and the Series B-1 Redemption Account" the "Redemption Accounts"). The Prior Bonds Trustee agrees that the [sum of the] amounts deposited in the Series B-2 Redemption Account, [the Federal Securities and interest earned on such Federal Securities,] is an amount equal to the Redemption Price for the Series B-2 Prior Bonds.

Section 5. [Investment of Redemption Accounts. The Successor Agency, hereby directs the Prior Bonds Trustee, to invest the Redemption Accounts for the Series A Prior Bonds, the Series B-1 Prior Bonds and the Series B-2 Prior Bonds in the federal securities described in Exhibit B (the "Federal Securities").]

Section 6. [Transfer of Remaining Funds. On _____, 2016, following the payment and redemption described above, the Prior Bonds Trustee shall, after the redemption in full of the Prior Bonds, transfer the amounts remaining in such Redemption Accounts after such payment to the Interest Account established under the Indenture and used to pay interest on the 2016 Bonds.]

Section 7. Amendment. These Instructions shall be irrevocable by the Successor Agency. These Instructions may be amended or supplemented by the Successor Agency, but only if the Successor Agency shall file with the Treasurer (a) an opinion of nationally recognized bond counsel engaged by the Successor Agency stating that such amendment or supplement will not, of itself, adversely affect the exclusion from gross income of interest represented by the Prior Bonds or the 2016 Bonds under federal income tax law, and (b) a certification of an independent accountant or independent financial adviser engaged by the Successor Agency

stating that such amendment or supplement will not affect the sufficiency of funds invested and held hereunder to make the payments required by Section 4.

Section 8. Governing Law. These Instructions shall be construed in accordance with and governed by the laws of the State of California.

Dated: _____, 2016

SUCCESSOR AGENT TO THE
REDEVELOPMENT AGENCY OF THE
CITY OF WATSONVILLE

By _____
[Name, Title]

ACCEPTED:

U.S. BANK NATIONAL ASSOCIATION

By _____
[Name, Title]

EXHIBIT A
PRIOR BONDS TO BE REDEEMED

2004 Tax Allocation Bonds, Series A

<u>Maturity Date</u> <u>(September 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>CUSIP (942742)</u>
2016	\$ 730,000	4.35	BP1
2017	760,000	4.50	BQ9
2018	795,000	4.60	BR7
2019	830,000	4.70	BS5
2020	870,000	4.75	BT3
2021	910,000	4.75	BU0
2022	955,000	4.75	BV8
2023	1,000,000	4.875	BW6
2024	1,050,000	5.00	BX4
2025	400,000	5.00	BY2
2026	415,000	5.00	BZ9
2027	440,000	5.00	CA3
2028	460,000	5.00	CB1
2029	485,000	5.00	CC9
2030	505,000	5.00	CD7
2034	2,295,000	5.00	CE5

2004 Housing Tax Allocation Bonds, Series B-1

<u>Maturity Date</u> <u>(September 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>CUSIP (942742)</u>
2016	\$120,000	4.40%	CS4
2017	125,000	4.50	CT2
2018	130,000	4.50	CU9
2019	135,000	4.625	CV7
2020	140,000	4.75	CW5
2021	150,000	4.75	CX3
2022	155,000	5.00	CY1
2023	165,000	5.00	CZ8
2024	170,000	5.00	DA2

2004 Taxable Housing Tax Allocation Bonds, Series B-2

<u>Maturity Date</u> <u>(September 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>CUSIP (942742)</u>
2019	\$1,225,000	6.00%	DM6
2024	1,690,000	6.25	DN4

[EXHIBIT B
FEDERAL SECURITIES]
[Attach trade information]

NEW ISSUE—BOOK-ENTRY

S&P Insurer: “__”
 S&P Underlying: “__”
 See “Ratings” herein.

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Agency, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2016A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2016A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the 2016B Bonds is included in gross income for Federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel to the Agency, under existing statutes, interest on the 2016 Bonds is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS – 2016A BONDS” and “TAX MATTERS – 2016B BONDS” herein.

\$[Series A Par]*
**Successor Agency to the Redevelopment Agency
 of the City of Watsonville**
2016 Tax Allocation Refunding Bonds
 Series A

\$[Series B Par]*
**Successor Agency to the Redevelopment Agency
 of the City of Watsonville**
2016 Tax Allocation Refunding Bonds
 Taxable Series B

Dated: Delivery Date

The \$[Series A Par]* aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A (the “2016A Bonds”) and \$[Series B Par]* aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B (the “2016B Bonds” and, together with the 2016A Bonds, the “2016 Bonds”) are being issued by the Successor Agency to the Redevelopment Agency of the City of Watsonville (the “Successor Agency”) pursuant to an Indenture of Trust, dated as of [May] 1, 2016 (the “Indenture”), by and between the Successor Agency and U.S. Bank National Association, as trustee (the “Trustee”).

The 2016 Bonds are being issued to (i) redeem and defease certain tax allocation bonds of the Successor Agency, as described herein; (ii) purchase a surety bond for the Reserve Account for the 2016 Bonds, (iii) purchase municipal bond insurance policies for each Series of the 2016 Bonds, and (iv) pay costs of issuance of the 2016 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING” herein.

The 2016 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”) in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the 2016 Bonds. Principal on the 2016 Bonds is due annually on August 1 of each year, commencing August 1, 2016, and interest on the 2016 Bonds is due semiannually on February 1 and August 1 of each year, commencing August 1, 2016, 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 2016 Bonds. See “THE 2016 BONDS” herein.

The 2016 Bonds are subject to redemption prior to maturity as described herein. See “THE 2016 BONDS - Redemption” herein.

The 2016 Bonds are special obligations of the Successor Agency, secured by a pledge of, and are payable as to principal, interest and premium, if any, from Tax Revenues (as defined herein), and other funds as provided in the Indenture. The 2016 Bonds are not a debt of the City of Watsonville (the “City”), the County of Santa Cruz (the “County”), the State of California (the “State”) or any of its political subdivisions (except the Successor Agency), and none of the City, the County, the State or any of its political subdivisions (except the Successor Agency) is liable thereon. The 2016 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The scheduled payment of principal of and interest on certain maturities of the 2016 Bonds (the “Insured Bonds”) when due will be guaranteed under insurance policies for the Insured Bonds of each Series to be issued concurrently with the issuance of the Insured Bonds by _____ (“____”). See “BOND INSURANCE” herein.

[insurer logo]

This cover page contains certain information for general reference only. It is not a summary of the security or terms of this issue. Investors must read this entire Official Statement to obtain information essential to making an informed investment decision with respect to the 2016 Bonds.

The 2016 Bonds are offered, when, as and if issued and accepted by the Underwriter, subject to the approval of validity by Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel to the Successor Agency. Certain legal matters will be passed on for the Successor Agency by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California, as Underwriter's Counsel. It is anticipated that the 2016 Bonds will be available for delivery through the book-entry facilities of DTC in New York, New York, on or about May ___, 2016.

HilltopSecurities

Dated: May ___, 2016

[insert maps]

MATURITY SCHEDULES

\$[Series A Par]^{*}
**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY
OF THE CITY OF WATSONVILLE
2016 TAX ALLOCATION REFUNDING BONDS
SERIES A**

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†] (Base _____)
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					

\$_____ % Term 2016A Bonds due August 1, 20__ Yield: ___%; Price: ___% CUSIP: _____

^{*} Preliminary, subject to change.

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the Successor Agency and are included solely for the convenience of investors. None of the Successor Agency, the Underwriter, the Redevelopment Consultant or the Financial Advisor, is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the 2016A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2016A Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2016A Bonds.

\$[Series B Par]^{*}
SUCCESSOR AGENCY TO THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF WATSONVILLE
2016 TAX ALLOCATION REFUNDING BONDS
TAXABLE SERIES B

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†] (Base _____)
2016					
2017					
2018					
2019					
2020					

\$_____ % Term 2016B Bonds due August 1, 20__ Yield: ___%; Price: ___% CUSIP: _____

^{*} Preliminary, subject to change.

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the Successor Agency and are included solely for the convenience of investors. None of the Successor Agency, the Underwriter, the Redevelopment Consultant or the Financial Advisor, is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the 2016B Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2016B Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2016B Bonds.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY
OF THE CITY OF WATSONVILLE**

BOARD OF DIRECTORS

Felipe Hernandez, *Chairman*
Karina Cervantez Alejo, *Vice-Chairman*
Lowell Hurst, *Member*
Jimmy Dutra, *Member*
Rebecca J. Garcia, *Member*
Trina Coffman-Gomez, *Member*
Dr. Nancy A. Bilicich, *Member*

SUCCESSOR AGENCY STAFF

Charles A. Montoya, *City Manager*
Ezequiel Vega, *Administrative Services Director*
Beatriz Vázquez Flores, *City Clerk*
Alan J. Smith, *City Attorney*

SPECIAL SERVICES

Financial Advisor

Steven Gortler
San Francisco, California

Bond Counsel

Hawkins Delafield & Wood LLP
San Francisco, California

Disclosure Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Redevelopment Consultant

DHA Consulting, LLC
Long Beach, California

Trustee

U.S. Bank National Association
San Francisco, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

INTRODUCTION	1
General	1
Authority for Issuance	1
Purpose and Application of Proceeds	1
The City and the Successor Agency	2
The Merged Project Area	2
The 2016 Bonds	2
Security for the 2016 Bonds	3
Special Obligations	3
Reserve Account	3
Statutory Pass-Through Payments	3
Pass-Through Agreements	4
Further Information	4
PLAN OF REFUNDING	4
General	4
Verification	4
ESTIMATED SOURCES AND USES OF FUNDS	5
DEBT SERVICE SCHEDULE	6
THE 2016 BONDS	7
Authority for Issuance	7
Description of the 2016 Bonds	7
Redemption	7
Limitation on Additional Indebtedness; Against Encumbrances	8
BOND INSURANCE	9
The Policy	9
THE DISSOLUTION ACT	10
SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS	11
Background	11
The Dissolution Act	11
Recognized Obligation Payment Schedules	11
Elimination of Housing Set-Aside	13
Santa Cruz County Auditor-Controller	13
Security and Sources of Payment for the 2016 Bonds	14
Flow of Funds	15
Statutory Pass-Through Payments	16
Pass-Through Agreements	16
Certain Covenants of the Successor Agency	16
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE	18
Members and Officers	19
Successor Agency Powers	19

The Redevelopment Plan.....	22
No Redevelopment Plan Limitations.....	23
Land Use.....	23
Largest Taxpayers	25
Assessed Values and the Real Estate Market	25
Source: CoreLogic; Provided by DQNews.....	26
Tax Rates.....	26
Appeals; Proposition 8 Reductions.....	27
Historical Taxable Values for the Merged Project Area	28
Source: DHA Consulting, LLC and Office of the Santa Cruz County Auditor-Controller.....	30
Historical Redevelopment Property Tax Trust Fund Revenues	31
Projected Taxable Valuation and Tax Revenues	32
County Administration Fees.....	33
RISK FACTORS	33
Reduction in Taxable Value	33
Risks to Real Estate Market.....	34
Reduction in Inflationary Rate	34
Levy and Collection of Taxes.....	34
Estimated Revenues.....	34
Recognized Obligation Payment Schedules	35
Future Implementation of Dissolution Act	36
Bankruptcy and Foreclosure.....	37
Bond Insurance Risk Factors.....	37
No Validation Proceeding Undertaken.....	38
Hazardous Substances	39
Natural Disasters	39
Changes in Law	39
Secondary Market.....	40
PROPERTY TAXATION IN CALIFORNIA	40
Property Tax Collection Procedures.....	40
County Tax Loss Reserve Fund (Teeter Plan).....	42
Unitary Property	42
Article XIII A of the State Constitution	42
Appropriations Limitation – Article XIII B.....	43
Articles XIII C and XIII D of the State Constitution.....	44
Proposition 87.....	44
Appeals of Assessed Values	44
Proposition 8.....	44
Propositions 218 and 26	45
Future Initiatives.....	45
TAX MATTERS	45
Tax Matters – 2016A Bonds.....	45
Tax Matters – 2016B Bonds.....	48
UNDERWRITING	50

FINANCIAL ADVISOR	51
VERIFICATION OF MATHEMATICAL ACCURACY	51
LITIGATION	51
LEGALITY FOR INVESTMENT IN CALIFORNIA	51
RATINGS	51
CONTINUING DISCLOSURE	52
APPROVAL OF LEGAL PROCEEDINGS	52
EXECUTION AND DELIVERY	52
APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	A-1
APPENDIX B – FORM OF BOND COUNSEL OPINION	B-1
APPENDIX C – BOOK-ENTRY SYSTEM	C-1
APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE	D-1
APPENDIX E – FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015	E-1
APPENDIX F – STATE DEPARTMENT OF FINANCE APPROVAL LETTER	F-1
APPENDIX G – SUPPLEMENTAL INFORMATION – CITY OF WATSONVILLE	G-1
APPENDIX H – SPECIMEN FINANCIAL GUARANTEE INSURANCE POLICY	I-1

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

The information set forth herein has been obtained from the Successor Agency and other sources believed to be reliable. This Official Statement is not to be construed as a contract with the purchasers of the 2016 Bonds. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. No dealer, broker, salesperson or any other person has been authorized by the Successor Agency, the Financial Advisor or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by the Successor Agency or the Underwriter.

This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any offer or solicitation of such offer or any sale of the 2016 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale of the 2016 Bonds made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the Successor Agency or in any other information contained herein, since the date hereof.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2016 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGES, AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access ("EMMA") website.

The City of Watsonville maintains a website with information pertaining to the Successor Agency. However, the information presented therein is not incorporated into this Official Statement and should not be relied upon in making investment decisions with respect to the 2016 Bonds.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Successor Agency does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

OFFICIAL STATEMENT

**\$[Series A Par]*
Successor Agency to the Redevelopment Agency
of the City of Watsonville
2016 Tax Allocation Refunding Bonds
Series A**

**\$[Series B Par]*
Successor Agency to the Redevelopment Agency
of the City of Watsonville
2016 Tax Allocation Refunding Bonds
Taxable Series B**

INTRODUCTION

General

This Official Statement, including the cover page and appendices hereto, sets forth certain information in connection with the sale of \$[Series A Par]* aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A (the “2016A Bonds”) and \$[Series B Par]* aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B (the “2016B Bonds” and, together with the 2016A Bonds, the “2016 Bonds”) that are being issued by the Successor Agency to the Redevelopment Agency of the City of Watsonville (the “Successor Agency”).

Authority for Issuance

The 2016 Bonds are being issued pursuant to the Constitution and laws of the State of California (the “State”), including Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Refunding Law”) and the Community Redevelopment Law, Part 1 of Division 24 (commencing with Section 33000) of the Health and Safety Code of the State of California (the “Redevelopment Law”). The 2016 Bonds are also being issued pursuant to an Indenture of Trust, dated as of [May] 1, 2016 (the “Indenture”), by and between the Successor Agency and U.S. Bank National Association, as trustee (the “Trustee”). All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

Purpose and Application of Proceeds

The 2016 Bonds are being issued to (i) redeem and defease (a) \$19,000,000 original principal amount of Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Tax Allocation Bonds, Series A, currently outstanding in the aggregate principal amount of \$_____; (b) \$2,310,000 original principal amount of Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Tax Allocation Bonds, Series B-1, currently outstanding in the aggregate principal amount of \$_____; and (c) \$4,635,000 original principal amount of Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Taxable Tax Allocation Bonds, Series B-2, currently outstanding in the aggregate principal amount of \$_____ (collectively, the “Prior Bonds”) of the Successor Agency; (ii) purchase a surety bond for the Reserve Account for the 2016 Bonds, (iii) purchase municipal bond insurance policies for each Series of the 2016 Bonds, and (iv) pay costs of issuance of the 2016 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING” herein.

* Preliminary, subject to change.

The City and the Successor Agency

The City of Watsonville, California (the “City”) is a charter city operating under the City Council-City Manager form of government and was incorporated in 1868 under the laws of the State. The City is located in the County of Santa Cruz, California (the “County”), approximately 95 miles south of the City and County of San Francisco and 47 miles southwest of the City of San Jose. The City has a population greater than 51,000 people.

The Former Agency was activated by the City Council of the City of Watsonville in 1972 pursuant to City Ordinance No. 280-72. At the same time, the City Council declared itself to be the members of the Former Agency and appointed the City Manager to be the Executive Director of the Former Agency. On June 29, 2011, Assembly Bill No. 26 (“AB x1 26”) was enacted as Chapter 5, Statutes of 2011, together with a companion bill, Assembly Bill No. 27 (“AB x1 27”). The provisions of AB x1 26 provided for the dissolution of all redevelopment agencies in the State. The provisions of AB x1 27 permitted redevelopment agencies to avoid dissolution by the payment of certain amounts. A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al., v. Matosantos, et al.*, 53 Cal. 4th 231 (Cal. Dec. 29, 2011), challenging the constitutionality of AB x1 26 and AB x1 27. The California Supreme Court largely upheld AB x1 26, invalidated AB x1 27, and held that AB x1 26 may be severed from AB x1 27 and enforced independently. As a result of AB x1 26 and the decision of the California Supreme Court in the California Redevelopment Association case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies. The primary provisions of AB X1 26 relating to the dissolution and winding down of former redevelopment agency affairs are Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health & Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“AB 1484”), enacted as Chapter 26, Statutes of 2012 and as further amended on September 22, 2015 by Senate Bill 107 (“SB 107”), enacted as Chapter 325, Statutes of 2015 (collectively, as amended from time to time, the “Dissolution Act”).

The City Council, pursuant to Resolution No. 4-12 (CM), adopted on January 10, 2012, elected to serve as the Successor Agency to the Former Agency. Subdivision (g) of Section 34173 of the Health and Safety Code of the State of California (the “Health and Safety Code”), added by AB 1484, expressly affirms that the Successor Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Successor Agency will not be transferred to the City nor will the assets of the Successor Agency become assets of the City.

The Merged Project Area

The redevelopment project area is a single merged project area, known as the Watsonville 2000 Redevelopment Project (the “Merged Project Area”), and contains 1,830 acres. The Merged Project Area contains a diverse mix of residential, commercial, industrial and manufacturing activities. For a description of the Merged Project Area, see “THE MERGED PROJECT AREA” herein.

The 2016 Bonds

The 2016 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”) in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the 2016 Bonds. Principal on the 2016 Bonds is due annually on August 1 of each year, commencing August 1, 2016, and interest on the 2016 Bonds is due semiannually on February 1 and August 1 of each year, commencing August 1, 2016, 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 2016 Bonds. See “THE 2016 BONDS” herein.

Security for the 2016 Bonds

The Dissolution Act requires the Santa Cruz County Auditor-Controller (the “County Auditor-Controller”) to determine the amount of property taxes that would have been allocated to the Former Agency had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller (the “Redevelopment Property Tax Trust Fund”).

The 2016 Bonds will be secured by a pledge of and lien on Tax Revenues pursuant to the Indenture, the Reserve Account and by a lien created pursuant to Section 34177.5(g) of the Health and Safety Code (added by the Dissolution Act) on monies deposited from time to time in the Redevelopment Property Tax Trust Fund. “Tax Revenues” means all moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Law, excluding amounts if any, payable by the Successor Agency pursuant to Sections 33676, 33401, 33607.5 and 33607.7 of the Law and Section 34183(a)(1) of the Dissolution Act, except to the extent such amounts are payable on a basis subordinate to the payment of Annual Debt Service on the 2016 Bonds or any Parity Debt pursuant to Section 33607.5(e) of the Law and 34177.5(c) of the Dissolution Act. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS” herein.

Special Obligations

The 2016 Bonds are special obligations of the Successor Agency, secured by a pledge of, and are payable as to principal, interest and premium, if any, from Tax Revenues and other funds as provided in the Indenture. The 2016 Bonds are not a debt of the City, the County, the State or any of its political subdivisions (except the Successor Agency), and none of the City, the County, the State or any of its political subdivisions (except the Successor Agency) is liable thereon. The 2016 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

Reserve Account

To secure the payment of the principal of and interest on the 2016 Bonds, a Reserve Account will be established under the Indenture and funded in an amount equal to the Reserve Requirement. “Reserve Requirement” means, with respect to the 2016 Bonds, the lesser of (i) 10% of the original aggregate principal amount of the 2016 Bonds (if there is more than a *de minimis* amount of original issue discount or premium (as defined in the Code), the issue price shall be used instead of principal amount) or (ii) 125% of the average Annual Debt Service with respect to the 2016 Bonds or (iii) Maximum Annual Debt Service with respect to the 2016 Bonds.

The Successor Agency will satisfy the Reserve Requirement by depositing the 2016 Reserve Policy in the Reserve Account in accordance with the Indenture. “2016 Reserve Policy” means the municipal bond debt service reserve insurance policy relating to the 2016 Bonds issued by the 2016 Bond Insurer.

Statutory Pass-Through Payments

Sections 33607.5 and 33607.7 of the Redevelopment Law require that a portion of the tax increment revenues in redevelopment project areas be distributed to the taxing agencies whose territory is located within a project area to alleviate the financial burden or detriment caused by the redevelopment project (“Statutory Pass-Through Payments”). The major Statutory Pass-Through Payment, in terms of

dollars payable, is the requirement to pass through about 24 percent of revenues for the 2000 Amendment Sub-Area Area (as defined herein), or \$1.1 million for 2015-16. The remaining payments are minor and are payable from tax revenues generated by the Central and Westside Sub-Area Areas. The Statutory Pass-Through Payments are senior to the Successor Agency's obligation to pay debt service on the 2016 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Statutory Pass-Through Payments" herein.

Pass-Through Agreements

The Former Agency entered into pass-through agreements (the "Pass-Through Agreements") with certain taxing agencies that provide for payments from tax revenue allocated to the Merged Project Area to such taxing agencies. The Successor Agency's obligations under the Pass-Through Agreements are senior to the Successor Agency's obligation to make payments on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Pass-Through Agreements" herein.

Further Information

Descriptions of the Redevelopment Law, the Refunding Law, the Dissolution Act, the 2016 Bonds, the Indenture, the Successor Agency, the Former Agency, the City, the County Auditor-Controller and the State of California Department of Finance (the "Department of Finance") are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Redevelopment Law, the Refunding Law, the Dissolution Act, the 2016 Bonds, the Indenture, and the laws of the State or the proceedings of the Former Agency, the Successor Agency, the City, the County Auditor-Controller and the Department of Finance are qualified in their entirety by reference to such documents and laws. References herein to the 2016 Bonds are qualified in their entirety by the form thereof included in the Indenture and the information with respect thereto included herein, copies of which are all available for inspection at the offices of the Successor Agency.

PLAN OF REFUNDING

General

Proceeds of the 2016 Bonds, together with certain funds made available through the refunding of the Prior Bonds, will be deposited into the 2004 Bonds Refunding Fund established under the Indenture and thereafter transferred to U.S. Bank National Association, as trustee for the Prior Bonds, and applied to redeem and defease the Prior Bonds pursuant to the 2004 Bonds Refunding Instructions. Amounts so deposited will be invested in [obligations guaranteed by the United States of America] and held by U.S. Bank National Association and will be sufficient to pay the principal amount of the Prior Bonds to be redeemed, together with accrued interest thereon to May __*, 2016 (the "Redemption Date"), without premium.

Verification

Causey Demgen & Moore P.C., as verification agent (the "Verification Agent"), upon delivery of the 2016 Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to it by the Successor Agency, relating to the sufficiency of moneys deposited into the 2004 Bonds Refunding Fund to provide for the redemption and defeasance of the Prior Bonds. The report of the Verification Agent will include a statement to the effect that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or date or information coming to its attention, subsequent to the date of its report.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are summarized as follows.

	<u>2016A Bonds</u>	<u>2016B Bonds</u>	<u>Total</u>
Sources:			
Principal Amount	\$	\$	\$
Net Premium/Discount			
Other Available Funds	\$	\$	\$
Total Sources			
Uses:			
2004 Bonds Refunding Fund	\$	\$	\$
Costs of Issuance Fund ⁽¹⁾			
Total Uses			

* Preliminary, subject to change.

⁽¹⁾ Costs of Issuance include Underwriter's discount, fees and expenses for Bond Counsel, Disclosure Counsel, Financial Advisor, Redevelopment Consultant, Verification Agent, and Trustee, premiums for the surety bond and municipal bond insurance policies, printing expenses, rating fee and other costs related to the issuance of the 2016 Bonds.

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DEBT SERVICE SCHEDULE

The following table shows the annual debt service requirements on the 2016 Bonds, assuming no optional redemptions.

Bond Year Ending (August 1)	2016A Bonds			2016B Bonds			Grand Total
	Principal	Interest	Total	Principal	Interest	Total	
2016	\$	\$	\$	\$	\$	\$	\$
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026							
2027							
2028							
2029							
2030							
2031							
2032							
2033							
TOTAL							

THE 2016 BONDS

Authority for Issuance

The 2016 Bonds were authorized for issuance pursuant to the Indenture, the Redevelopment Law and the Refunding Law. The issuance of the 2016 Bonds and the Indenture were authorized by the Successor Agency pursuant to Resolution No. ____ adopted on March 8, 2016 (the “Resolution”) and by the Oversight Board for the Successor Agency pursuant to Resolution No. ____ adopted on March 9, 2016 (the “Oversight Board Resolution”).

Written notice of the Oversight Board Resolution was provided to the Department of Finance, pursuant to the Dissolution Act, on ____, 2016. On ____, 2016, the Department of Finance provided a letter to the Successor Agency stating that based on the Department of Finance’s review and application of the law, the Oversight Board Resolution approving the 2016 Bonds was approved by the Department of Finance. See APPENDIX F – “STATE DEPARTMENT OF FINANCE APPROVAL LETTER.”

Description of the 2016 Bonds

The 2016 Bonds of each Series will be issued and delivered as one fully-registered 2016 Bond in the denomination of \$5,000 or any integral multiple thereof (each an “Authorized Denomination”) for each maturity of that Series of 2016 Bonds, initially in the name of Cede & Co., as nominee for DTC, as registered owner. One fully-registered certificate will be issued for each maturity of the 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX C – “BOOK-ENTRY SYSTEM.”

The 2016 Bonds will be dated the date of their delivery (the “Delivery Date”) and mature on August 1 in the years and in the amounts shown on the inside cover pages of this Official Statement. Interest on the 2016 Bonds will be payable on each February 1 and August 1, commencing August 1, 2016 (each an “Interest Payment Date”) to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed by first class mail, postage prepaid, on the Interest Payment Date, to such Owner at the address of such Owner as it appears on the Registration Books as of such Record Date; provided however, that payment of interest may be by wire transfer to an account in the United States of America to any registered owner of 2016 Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee prior to the applicable Record Date. “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. Principal of and redemption premium (if any) on any 2016 Bond shall be paid upon presentation and surrender thereof, at maturity, at the Principal Corporate Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the 2016 Bonds shall be payable in lawful money of the United States of America. Interest shall be calculated based upon a 360-day year of twelve 30-day months.

Redemption*

Optional Redemption of 2016A Bonds. The 2016A Bonds maturing on or before August 1, 20____ are not subject to optional redemption prior to maturity. The 2016A Bonds maturing on and after August 1, 20____, are subject to redemption, at the option of the Successor Agency on any date on or after August 1, 20____, as a whole or in part, by such maturities as shall be determined by the Successor Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal

* Preliminary, subject to change.

amount of the 2016A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

No Optional Redemption of 2016B Bonds. The 2016B Bonds are not subject to optional redemption prior to their maturity.

Notice of Redemption. The Trustee on behalf and at the expense of the Successor Agency shall mail (by first class mail, postage prepaid) notice of any redemption at least twenty (20) but not more than sixty (60) days prior to the redemption date, to (i) to the Owners of any 2016 Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to the Information Services; but such mailing shall not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such 2016 Bonds or the cessation of the accrual of interest thereon. Such notice shall state the redemption date and the redemption price, shall state that optional redemption is conditioned upon the timely delivery of the redemption price by the Successor Agency to the Trustee for deposit in the Redemption Account, shall designate the CUSIP number of the 2016 Bonds to be redeemed, shall state the individual number of each 2016 Bond to be redeemed or shall state that all 2016 Bonds between two stated numbers (both inclusive) or all of the 2016 Bonds Outstanding are to be redeemed, and shall require that such 2016 Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such 2016 Bonds will not accrue from and after the redemption date.

Right to Rescind Notice. The Successor Agency has the right to rescind any notice of optional redemption of the 2016 Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2016 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Successor Agency and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Partial Redemption of 2016 Bonds. In the event only a portion of any 2016 Bond is called for redemption, then upon surrender of such 2016 Bond the Successor Agency shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Successor Agency, a new 2016 Bond or 2016 Bonds of the same interest rate and maturity, of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the 2016 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the 2016 Bonds so called for redemption shall have been duly deposited with the Trustee, such 2016 Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Manner of Redemption. Whenever any 2016 Bonds or portions thereof are to be selected for redemption by lot within a maturity, the Trustee shall make such selection, in such manner as the Trustee shall deem appropriate.

Limitation on Additional Indebtedness; Against Encumbrances

The Successor Agency covenants in the Indenture that it will not issue any bonds, notes, or other obligations that are payable from or secured by a lien on Tax Revenues that is superior to the lien under the Indenture. The Successor Agency may issue bonds or other obligations to refund all of its Outstanding

Bonds provided that all of such Outstanding Bonds are defeased in accordance with the Indenture. The Successor Agency may issue Parity Debt to refund a portion of the Outstanding Bonds provided that with respect to any such refunding (i) annual debt service on such Parity Debt, as applicable, is lower than annual debt service on the obligations being refunded during every year the obligations would otherwise be outstanding (ii) the final maturity of any such Parity Debt does not exceed the final maturity of the obligations being refunded, (iii) the interest rate on the Parity Debt shall be fixed on the date of issuance of the Parity Debt, and (iv) principal payments shall be on August 1 and interest payments on August 1 and February 1. "Parity Debt" means any bonds, notes or other obligations that are payable from and secured by a lien on Tax Revenues that is on parity with the lien under the Indenture. Nothing in the Indenture prevents the Successor Agency from issuing Subordinate Debt.

BOND INSURANCE

The Policy

Concurrently with the issuance of the 2016 Bonds, _____ will deliver municipal bond insurance policies (each, a "Policy" and collectively, the "Policies") for the _____ maturities of the 2016A Bonds and the _____ maturities of the 2016B Bonds (collectively, the "Insured Bonds"). Each Policy guarantees the scheduled payment of principal of and interest on the related Series of Insured Bonds when due as set forth in the form of the applicable Policy included as APPENDIX I – "SPECIMEN FINANCIAL GUARANTEE INSURANCE POLICY."

[to come]

THE DISSOLUTION ACT

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Former Agency not been dissolved pursuant to the operation of AB x1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if the bonds had been issued prior to effective date of AB x1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Successor Agency's Recognized Obligation Payment Schedules.

The Dissolution Act further provides that bonds authorized thereunder to be issued by the Successor Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that property tax revenues pledged to any bonds authorized to be issued by the Successor Agency under the Dissolution Act, including the 2016 Bonds, are taxes allocated to the Successor Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution.

Pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution and as provided in a Redevelopment Plan, taxes levied upon taxable property in the Merged Project Area each year by or for the benefit of the State, any city, county, city and county, district, or other public corporation (herein sometimes collectively called "taxing agencies") after the effective date of the ordinance approving such Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the Merged Project Area are to be divided as follows:

- (a) *To Taxing Agencies:* That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the applicable project area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the applicable Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the applicable project area (each, a "base year valuation"), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and
- (b) *To the Former Agency/Successor Agency:* Except for that portion of the taxes in excess of the amount identified in (a) above that is attributable to a tax rate levied by a taxing agency for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of, and the interest on, any bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion shall be allocated to, and when collected shall be paid into, the fund of that taxing agency, that portion of the levied taxes each year following the Delivery Date, when collected will be paid into a special fund of the Successor Agency. Section 34172 of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the Redevelopment Property Tax Trust Fund shall be deemed to be a special fund of the Successor Agency to pay the debt service on indebtedness incurred by the Former Agency or the Successor Agency to finance or refinance the redevelopment projects of the Former Agency.

That portion of the levied taxes described in paragraph (b) above, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller and required pass-through payments, constitutes the amount required under the Dissolution Act to be deposited by the County Auditor-Controller into the Redevelopment Property Tax Trust Fund. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989 date from paragraph (b) above.

SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS

Background

Prior to the enactment of the Dissolution Act, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming the taxable valuation never dropped below the base year level, the taxing agencies receiving property taxes thereafter would receive only that portion of the taxes produced by applying then current tax rates to the base year valuation; the redevelopment agency was allocated the remaining portion of property taxes (i.e., the portion measured by applying then current tax rates to the increase in valuation over the base year valuation). Such “incremental tax revenues” allocated to a redevelopment agency were authorized to be pledged to the payment of redevelopment agency obligations, including the Prior Bonds.

The Dissolution Act

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Former Agency not been dissolved pursuant to the operation of AB x1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if the bonds had been issued prior to effective date of AB x1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Successor Agency’s Recognized Obligation Payment Schedules, as defined and described below.

The Dissolution Act further provides that bonds authorized thereunder to be issued by the Successor Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that tax revenues pledged to any bonds authorized to be issued by the Successor Agency under the Dissolution Act, including the 2016 Bonds, are taxes allocated to the Successor Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution.

Recognized Obligation Payment Schedules

By February 1st of each fiscal year, the Dissolution Act requires successor agencies to prepare, and submit to the successor agency’s oversight board and the Department of Finance for approval, a Recognized Obligation Payment Schedule (the “Recognized Obligation Payment Schedule”) pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. As defined in the Dissolution Act, “enforceable obligation” includes bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance

of the outstanding bonds of the Former Agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and amounts borrowed from a low and moderate income housing fund.

Under the Dissolution Act, the categories of sources of payments for enforceable obligations listed on a Recognized Obligation Payment Schedule are the following: (i) bond proceeds, (ii) reserve balances, (iii) administrative cost allowance, (iv) the Redevelopment Property Tax Trust Fund (but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation or otherwise required under the Dissolution Act), or (v) other revenue sources (including rents, concessions, asset sale proceeds, interest earnings, and any other revenues derived from the Former Agency, as approved by the Oversight Board). A reserve may be included on the Recognized Obligation Payment Schedule and held by the successor agency when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following six-month period.

The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Successor Agency from the funds specified in the Recognized Obligation Payment Schedule. Each annual Recognized Obligation Payment Schedule may be amended once, provided that (i) the Agency submits the amendment to the Department of Finance no later than October 1, (ii) the Oversight Board makes a finding that the amendment is necessary for the payment of approved enforceable obligations during the second half of the Recognized Obligation Payment Schedule period (from January 1 to June 30, inclusive), and (iii) the Successor Agency may only amend the amount requested for payment of approved enforceable obligations. The Department of Finance shall notify the Agency and the County Auditor-Controller as to whether the Successor Agency's requested amendment is approved at least 15 days before the January 2 property tax distribution.

The Recognized Obligation Payment Schedule must be submitted by the Successor Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the Department of Finance and the State Controller by February 1 in each year. If the Successor Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by such deadline, the City will be subject to a civil penalty equal to \$10,000 per day for every day that the schedule is not submitted. Additionally, the Successor Agency's administrative cost allowance will be reduced by 25% for any fiscal year for which the Successor Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule within 10 days of the February 1 deadline. If the Successor Agency fails to submit a Recognized Obligation Payment Schedule by the February 1 deadline, any creditor of the successor agency or the department or any affected taxing entity shall have standing to, and may request a writ of mandate to, require the Successor Agency to immediately perform this duty. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications thereof on the 2016 Bonds, see "RISK FACTORS – Recognized Obligation Payment Schedules."

With respect to each Recognized Obligation Payment Schedule submitted by the Successor Agency, the Dissolution Act requires the Department of Finance to make a determination of the enforceable obligations and the amounts and funding sources available to pay approved enforceable obligations no later than April 15. Within five business days of the determination by the Department of Finance, the Successor Agency may request additional review by the Department of Finance and an opportunity to meet and confer on disputed items, if any. The Department of Finance will notify the Agency and the County Auditor-Controller as to the outcome of its review at least 15 days before the June 1 property tax distribution date preceding the applicable Recognized Obligation Payment Schedule period. Additionally, the County Auditor-Controller may review a submitted Recognized Obligation

Payment Schedule and object to the inclusion of any items that are not demonstrated to be enforceable obligations and may object to the funding source proposed for any items, provided that the County Auditor-Controller must provide notice of any such objections to the Successor Agency, the Oversight Board and the Department of Finance at least 60 days prior to the next June 1 property tax distribution date.

The Successor Agency covenants that it will duly and punctually pay or cause to be paid the principal of and interest on the 2016 Bonds on the date, at the place and in the manner provided in the 2016 Bonds, and that it will take all actions required under the Health and Safety Code to include debt service on the 2016 Bonds on the applicable Recognized Obligation Payment Schedule, including any amounts required to replenish the Reserve Account to the full amount of the Reserve Requirement.

The following table shows the Recognized Obligation Payment Schedule submission history for the Successor Agency.

Table 1
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Recognized Obligation Payment Schedule Submission History

	<u>Funding Period</u>	<u>ROPS Approved by Oversight Board</u>	<u>Approved ROPS Submitted to DOF</u>	<u>Deadline to Submit ROPS to DOF</u>	<u>ROPS Submitted On Time</u>
ROPS I	Jan-Jun 2012				
ROPS II	Jul-Dec 2012				
ROPS III	Jan-Jun 2013				
ROPS 2013-14A	Jul-Dec 2013				
ROPS 2013-14B	Jan-Jun 2014				
ROPS 2014-15A	Jul-Dec 2014				
ROPS 2014-15B	Jan-Jun 2015				
ROPS 2015-16A	Jul-Dec 2015				
ROPS 2015-16B	Jan-Jun 2016				

Elimination of Housing Set-Aside

Pursuant to Sections 33334.2 and 33334.3 of the Redevelopment Law, redevelopment agencies were required to set aside not less than twenty percent of all tax increment revenues allocated to redevelopment agencies from redevelopment project areas adopted after December 31, 1976, in a low- and moderate-income housing fund to be expended for authorized housing purposes. Amounts on deposit in the low- and moderate-income housing fund could be applied to pay debt service on bonds, loans, or advances of redevelopment agencies to finance low- and moderate-income housing projects.

The Dissolution Act eliminated the requirement that twenty percent of tax increment revenue be set aside and used exclusively for purposes of providing low and moderate income housing. The 2016A Bonds are payable from amounts of tax increment revenue that prior to the Dissolution Act were required to be set aside for low and moderate income housing.

Santa Cruz County Auditor-Controller

The County Auditor-Controller is responsible for accounting, auditing, accounts payable, payroll and property tax services for all governments, individuals and businesses she serves, including the County. The Dissolution Act assigns county auditors numerous responsibilities, including the

responsibility to deposit tax increment revenues attributable to each successor agency into a Redevelopment Property Tax Trust Fund held in the county treasury in the name of each successor agency. Pursuant to the Dissolution Act, county auditors disburse funds from each Redevelopment Property Tax Trust Fund twice annually, on January 2 and June 1. Such amounts include pass-through payments to affected taxing entities, payments that are required to be paid from tax increment as approved on a Recognized Obligation Payment Schedule, and various administrative fees and allowances. Remaining Redevelopment Property Tax Trust Fund balances are distributed to affected taxing entities under a prescribed method that accounts for pass-through payments. County auditors are also responsible for distributing other moneys received from successor agencies (from sale of assets etc.) to the affected taxing entities.

The County calculates tax increment revenues by subtracting the base year tax revenues from current year revenues. The resulting amount of estimated revenue is then converted to a percentage of revenue to be received County-wide. The revenues actually available for distribution to the Successor Agency and other taxing entities are based on these County-wide ratios. It is the County's practice to allocate 100 percent of secured revenues without deductions for tax delinquencies. Unsecured taxes are allocated based on actual collections. All taxes payable to the Successor Agency in a given fiscal year are affected by changes to taxable values or tax refunds, but such changes are allocated on a County-wide basis.

Before the County of Santa Cruz converts the Successor Agency's increment to a countywide ratio, it computes and then deducts the amounts it calculates for the pass-through payments. It is the County's practice to allocate actual tax increment payments on a net tax increment basis (tax increment after tax sharing obligations are deducted). The County then extrapolates the amount of gross tax revenue allocated and reports that amount to the State Department of Finance and the Successor Agency.

Security and Sources of Payment for the 2016 Bonds

The Successor Agency has established and holds the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Redevelopment Law. Except as provided in the Indenture with respect to indemnification of the Trustee, the 2016 Bonds and any Parity Debt will be equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and 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 and the Redemption Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery.

The 2016 Bonds shall be additionally secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Reserve Account established under the Indenture. The 2016 Bonds shall be also equally secured by the pledge and lien created with respect to the 2016 Bonds by Section 34177.5(g) of the Redevelopment Law on the Tax Revenues deposited from time to time in the Redevelopment Property Tax Trust Fund. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest on the 2016 Bonds.

In consideration of the acceptance of the 2016 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 Successor Agency and the Owners from time to time of the 2016 Bonds, and the covenants and agreements herein set forth to be performed on behalf of the Successor Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the 2016 Bonds without preference, priority or distinction as to security or otherwise of any of the 2016 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 or in the Indenture.

Flow of Funds

There is established under the Indenture a trust fund to be known as the "Debt Service Fund," which will be held by the Trustee under the Indenture in trust. The Successor Agency shall deposit all Tax Revenues into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof and promptly thereafter transfer to the Trustee for deposit in the Debt Service Fund all amounts necessary for the Trustee to fully fund the deposits described in the Indenture for the following accounts for the next succeeding Bond Year. The moneys in the Debt Service Fund shall be transferred by the Trustee in the following amounts, at the following times, into the following respective special accounts, which are established under the Indenture in the Debt Service Fund, and in the following order of priority:

Interest Account. On or before the fifth (5th) Business Day preceding each Interest Payment Date, the Trustee shall transfer and deposit in the Interest Account an amount which, when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding 2016 Bonds on such Interest Payment Date. No such deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding 2016 Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the 2016 Bonds as it shall become due and payable.

Principal Account. On or before the fifth (5th) Business Day preceding each August 1 on which the principal of the 2016 Bonds becomes due and payable, and at maturity, the Trustee shall transfer and 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 2016 Bonds. No such deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next August 1 on all of the Outstanding 2016 Bonds and any Parity Debt. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the 2016 Bonds and any Parity Debt as it shall become due and payable.

Sinking Account. No later than the fifth (5th) Business Day preceding each August 1 on which any Term 2016 Bond becomes subject to mandatory sinking account redemption, the Trustee shall transfer and 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 2016 Bonds required to be redeemed on such August 1. No such deposit need be made to the Sinking Account if the amount contained therein is at least equal to the Sinking Account payments to become due on the next August 1 on all of the Outstanding 2016 Bonds. 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 2016 Bonds as it shall become due and payable upon redemption or purchase pursuant to the Indenture.

Reserve Account. There is established in the Debt Service Fund a separate account known as the "Reserve Account" solely as security for payments payable by the Successor Agency pursuant to the Indenture, which shall be held by the Trustee in trust for the benefit of the Owners of the 2016 Bonds. The Reserve Requirement for the 2016 Bonds will be satisfied by the delivery of the 2016 Reserve Policy by the 2016 Bond Insurer on the date of delivery of the 2016 Bonds. The Successor Agency will have no obligation to replace the 2016 Reserve Policy or to fund the Reserve Account with cash if, at any time that the 2016 Bonds are Outstanding, amounts are not available under the 2016 Reserve Policy or if any rating with respect to the 2016 Bond Insurer is downgraded or revoked. The 2016 Reserve Policy is a Qualified Reserve Account Credit Instrument under the Indenture.

All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in the event of any

deficiency at any time in any of such accounts or for the retirement of all the 2016 Bonds then Outstanding.

Redemption Account. On or before the Business Day preceding any date on which 2016 Bonds are to be redeemed, other than mandatory Sinking Account redemption of Term 2016 Bonds, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Successor Agency pursuant to the optional redemption provisions of the Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the 2016 Bonds to be redeemed on the applicable redemption 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 2016 Bonds to be optionally redeemed on the date set for such redemption, other than mandatory Sinking Account redemption of Term 2016 Bonds. Interest due on 2016 Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account.

Statutory Pass-Through Payments

Sections 33607.5 and 33607.7 of the Redevelopment Law require that a portion of the tax increment revenues in redevelopment project areas be distributed to the taxing agencies whose territory is located within a project area to alleviate the financial burden or detriment caused by the redevelopment project (“Statutory Pass-Through Payments”). The major Statutory Pass-Through Payment, in terms of dollars payable, is the requirement to pass through about 24 percent of revenues for the 2000 Amendment Sub-Area Area, or \$1.1 million for Fiscal Year 2015-16. The remaining payments are more minor and are payable from revenues generated by the Central and Westside Sub-Area Areas. All of the Statutory Pass-Through Payments are senior to the Successor Agency’s obligation to pay debt service on the 2016 Bonds and total approximately \$1.28 million for Fiscal Year 2015-16.

Pass-Through Agreements

The Former Agency entered into agreements in May 1992 with the County (the “County Agreement”) and the Pajaro Storm Drain Maintenance District (the “Pajaro District Agreement”) pursuant to former Section 33401 of the Health and Safety Code (together, the “Pass-Through Agreements”). Under the Pass-Through Agreements, the Successor Agency agrees to pay to the County and the Pajaro District 100 percent of their share of tax increment revenues from the Central and Westside Sub-Area Areas. Together, the Agreements require that the Agency pass through approximately 25.8% of gross revenue generated by the two Project Areas. For Fiscal Year 2015-16, the amount is estimated to equal \$894,000. While not specifically defined in the County Agreement, the County is retaining the reimbursement revenues for all taxing entities governed by the Board of Supervisors of the County. Those taxing entities include the County General Fund and the Santa Cruz County Flood Control District. The Successor Agency’s obligations under the Pass-Through Agreements are senior to the Successor Agency’s obligation to pay debt service on the 2016 Bonds.

Certain Covenants of the Successor Agency

The Indenture contains the following specific covenants of the Successor Agency, among others:

Punctual Payment. The Successor Agency will punctually pay or cause to be paid the principal and interest to become due in respect of all the 2016 Bonds together with the premium thereon, if any, in strict conformity with the terms of the 2016 Bonds and of the Indenture. The Successor Agency shall faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and the 2016 Bonds. Nothing in the Indenture will prevent the Successor Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to in the Indenture.

Compliance with the Redevelopment Law; Recognized Obligation Payment Schedules.

(a) The Successor Agency shall comply with all of the requirements of the Redevelopment Law. Pursuant to Section 34177 of the Redevelopment Law, not later than each date a Recognized Obligation Payment Schedule is due, the Successor Agency shall submit to the Oversight Board and the Department of Finance, a Recognized Obligation Payment Schedule. The Successor Agency shall take all actions required under the Redevelopment Law to include in the Recognized Obligation Payment Schedule for each Bond Year (i) Annual Debt Service on the 2016 Bonds and any Parity Debt (ii) all amounts (if any) required to cure any deficiency in the Reserve Account and (iii) all amounts due and owing to the 2016 Bond Insurer hereunder, so as to enable the County Auditor-Controller to distribute such amounts from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 and June 1, as applicable. "Bond Year" means, any twelve-month period beginning on August 2 in any year and ending on the next succeeding August 1, both dates inclusive, except that the first Bond Year will begin on the Delivery Date, and end on August 1, 2016. Within ___ days following the Delivery Date or in any event prior to June 1, 2016, the Successor Agency shall cause the Recognized Obligation Payment Schedule for Fiscal Year 2016-17 to be amended to provide that (i) Tax Revenues to be received by the Successor Agency on June 1, 2016 will be sufficient to pay principal of and interest on the 2016 Bonds due on August 1, 2016; and (ii) Tax Revenues to be received by the Successor Agency on January 2, 2017 will be sufficient to pay principal of and interest on the 2016 Bonds due on February 1, 2017 and August 1, 2017.

(b) To ensure that amounts are available for the Trustee to pay Annual Debt Service on all Outstanding 2016 Bonds and all amounts due and owing to the 2016 Bond Insurer hereunder on a timely basis, not later than February 1 of each year (or such other time as may be required by the Dissolution Act), commencing February 1, 2017 for the Bond Year beginning on August 2, 2017, the Successor Agency shall submit an Oversight Board-approved Recognized Obligation Payment Schedule to the Department of Finance and to the County Auditor-Controller that shall include:

(i) all of the debt service due on all Outstanding 2016 Bonds on February 1 and August 1 of the Bond Year ending on August 1 of the next calendar year, which amount shall be distributed in full to the Successor Agency on January 2 of such year, and

(ii) any amount required to cure any deficiency in the Reserve Account pursuant to the Indenture (including any amounts required due to a draw on the Qualified Reserve Account Credit Instrument as well as all amounts due and owing to the 2016 Bond Insurer under the Indenture).

In addition to the amounts described in clauses (i) and (ii) of the previous paragraph, if the amount of Tax Revenues distributed to the Successor Agency on January 2 in any year is less than the sum of the amounts specified in clauses (i) and (ii) of the previous paragraph, then not later than February 1 of such year (or on such other date as may be required by the Dissolution Act), the Successor Agency shall submit an Oversight Board-approved Recognized Obligation Payment Schedule to the Department of Finance and to the Santa Cruz County Auditor-Controller that shall include the balance due to the Successor Agency, which amount shall be distributed in full to the Successor Agency on June 1 of such year.

(c) If the provisions set forth in the Dissolution Act as of the Delivery Date of the 2016 Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency covenants that it shall use commercially reasonable efforts to take all actions necessary to ensure the Agency receives on January 2 of each year from moneys deposited into the Redevelopment Property Tax Trust Fund, sufficient Tax Revenues to pay all Annual Debt Service due on all Outstanding 2016 Bonds during such Bond Year.

(d) If any amounts then due and payable to the 2016 Bond Insurer under the Indenture are not included on any current Recognized Obligation Payment Schedule and the Successor Agency is then legally permitted to amend such Recognized Obligation Payment Schedule, the Successor Agency will submit to the Oversight Board and the Department of Finance a request to amend such Recognized Obligation Payment Schedule to include such amounts then due and payable to the 2016 Bond Insurer.

(e) The Successor Agency will not submit to the Oversight Board and the Department of Finance a request for the final amendment permitted for its Last and Final Recognized Obligation Payment Schedule pursuant to Section 34191.6 without the prior written consent of the 2016 Bond Insurer, unless all amounts that could become due and payable to the 2016 Bond Insurer under the Indenture would be included as a line item on the Last and Final Recognized Obligation Payment Schedule following approval of the requested amendment.

Dissolution Act Invalid; Maintenance of Tax Revenues. If the applicable property tax revenues provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid and, in place of the invalid provisions, provisions of the Redevelopment Law or the equivalent become applicable to the 2016 Bonds, the Successor Agency shall comply with all requirements of the Redevelopment Law or the equivalent to ensure 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, in the case of amounts payable by the State, appropriate officials of the State.

See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE

The Successor Agency is a public body, corporate and politic, existing under and by virtue of the Redevelopment Law and is governed by a seven-member board (the “Board”) which consists of all members of the City Council. The Former Agency was activated in 1972.

On June 29, 2011, AB X1 26 was enacted as Chapter 5, Statutes of 2011, together with a companion bill, AB X1 27. AB X1 26 provided for the dissolution of all redevelopment agencies, but also permitted redevelopment agencies to avoid such dissolution by the payment of certain amounts. A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al., v. Matosantos, et al.*, 53 Cal. 4th 231 (Cal. 2011), challenging the constitutionality of AB X1 26 and AB X1 27. In its December 29, 2011 decision, the California Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the California Supreme Court in the California Redevelopment Association case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies. The Department of Finance conducted a review of the Successor Agency’s documentation and issued its Finding of Completion on February 21, 2014.

The City Council, pursuant to Resolution No. 4-12 (CM), adopted on January 10, 2012, elected to serve as the Successor Agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Successor Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City.

Members and Officers

The members of the Successor Agency Board (the “Board”) and the expiration dates of their terms are as follows:

Name and Office	Expiration of Term
Felipe Hernandez, <i>Chairman</i>	
Karina Cervantez Alejo, <i>Vice-Chairman</i>	
Lowell Hurst, <i>Member</i>	
Jimmy Dutra, <i>Member</i>	
Rebecca J. Garcia, <i>Member</i>	
Trina Coffman-Gomez, <i>Member</i>	
Dr. Nancy A. Bilicich, <i>Member</i>	

Successor Agency Powers

All powers of the Successor Agency are vested in the Board. Pursuant to the Dissolution Act, the Successor Agency is a separate public body from the City and succeeds to the organizational status of the Former Agency but without any legal authority to participate in redevelopment activities, except to complete any work related to an approved enforceable obligation. The Successor Agency is tasked with expeditiously winding down the affairs of the Former Agency, pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, many Successor Agency actions are subject to approval by the Oversight Board, as well as review by the Department of Finance. The State has strict laws regarding public meetings (known as the Ralph M. Brown Act) which generally make all Successor Agency and Oversight Board meetings open to the public in similar manner as City Council meetings.

Previously, Section 33675 of the Redevelopment Law required the Former Agency to file not later than the first day of October of each year with the County Auditor-Controller a statement of indebtedness certified by the chief fiscal officer of the Former Agency for each redevelopment plan which provides for the allocation of taxes (i.e., the Redevelopment Plans). The statement of indebtedness was required to contain the date on which the bonds were delivered, the principal amount, term, purposes and interest rate of the bonds and the outstanding balance and amount due on the bonds. Similar information was required to be given for each loan, advance or indebtedness that the Former Agency had incurred or entered into which is payable from tax increment. Section 33675 also provided that payments of tax increment revenues from the County Auditor-Controller to the Former Agency could not exceed the amounts shown on the Former Agency’s statement of indebtedness. The Dissolution Act eliminated this requirement and provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, the Recognized Obligation Payment Schedule supersedes the statement of indebtedness previously required under the Redevelopment Law, and commencing from such date, the statement of indebtedness will no longer be prepared nor have any effect under the Redevelopment Law. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Recognized Obligation Payment Schedule.”

THE MERGED PROJECT AREA

Merged Project Area Components

The Merged Project Area consists of three former independent redevelopment project subareas: the Central Downtown Redevelopment Project (the “Central Sub-Area”), the Westside Industrial Redevelopment Project (the “Westside Sub-Area”) and the 2000 Amendment Sub-Area (defined below). Overall, the Merged Project Area encompasses 1,830 non-contiguous acres representing 44% of the City’s total land area. Total Fiscal Year 2015-16 taxable assessed value within the Merged Project Area equals \$1,308,696,878 and primary land uses are diversified among residential (31.4%), commercial (28.4%) and industrial (24.9%). The ten largest taxpayers within the Merged Project Area comprise 15.1% of total assessed value and the leading taxpayers include food processing plants and warehousing facilities. During the past ten years, from Fiscal Year 2005-06 through Fiscal Year 2015-16, the rate of growth in Merged Project Area total assessed value has averaged 2.04% per year.

Central Sub-Area. The Central Sub-Area was originally formed pursuant to a redevelopment plan adopted by the City Council of the City on July 10, 1973. The Central Sub-Area is located in the _____ section of the City and encompasses _____ acres or _____ % of the entire Merged Project Area. In 1992, three noncontiguous areas totaling 5.4 acres were added to the Central Sub-Area (the “Downtown Added Area”). The Central Sub-Area, including the Downtown Added Area, consists primarily of commercial development in the old town center of the City. In the Central Sub-Area, current development is primarily redevelopment of under-used parcels that are largely already developed. For example, McDonald’s assembled three parcels in 2015 on Main Street and opened a new 4,278 sq. ft. restaurant with 36 parking spaces and a drive-through facility. The restaurant replaced existing structures that were abandoned. Major taxpayers in the Central Sub-Area include _____, _____ and _____.

The Central Sub-Area accounts for 11.2% of Merged Project Area 2015-16 total assessed value, and primary land uses include _____ (%), _____ (%) and _____ (%). From 2005-06 through 2015-16, the rate of growth in Central Sub-Area total assessed value has averaged 1.95% per year.

Westside Sub-Area. The Westside Sub-Area was originally formed pursuant to a redevelopment plan adopted by the City Council of the City on July 10, 1973. The Westside Sub-Area is located in the _____ section of Watsonville and encompasses _____ acres or _____ % of the entire Merged Project Area. The Westside Sub-Area originally contained _____ acres. In 1992, 10.7 acres were added to the Westside Area (the “Westside Added Area”), when the Central Sub-Area and the Westside Sub-Area were combined as described below. The Westside Sub-Area, including the Westside Added Area, consists primarily of food processing industrial uses, clustered along West Beach Street in the City. Major taxpayers in the Westside Sub-Area include Granite Construction Company, Del Mar Food Products and Terminal Freezers. A major taxpayer in the Westside Sub-Area and the 2000 Amendment Sub-Area, discussed below, is S. Martinelli & Company, a food processing company that manufactures apple juice and cider. S. Martinelli & Company has two production facilities in the City, totaling over 450,000 square feet on twenty acres. According to the company, approximately 200 people are employed from the local community.

The Westside Sub-Area accounts for 20.8% of Merged Project Area 2015-16 total assessed value, and primary land uses include _____ (%), _____ (%) and _____ (%). From 2005-06 through 2015-16, the rate of growth in Westside Sub-Area total assessed value has averaged 0.64% per year.

2000 Amendment Sub-Area. On July 27, 2000, the combined Central Sub-Area and the Westside Sub-Area, together with the Downtown Added Area and the Westside Added Area, was further expanded pursuant to Ordinance No. 1092-00 of the City (the “2000 Amendment Sub-Area”). At this time, the current Redevelopment Plan became effective. The 2000 Amendment Sub-Area area is located in _____ of the City and encompasses 1,280 acres or 70% of the entire Merged Project Area. The 2000 Amendment Sub-Area area contains a mix of uses, including commercial, residential, industrial and the Watsonville Municipal Airport (the “Airport”). Major taxpayers in the 2000 Amendment Sub-Area include Home Depot and S. Martinelli & Company, discussed above. Home Depot is located near the Airport at the corner of Loma Prieta Ave. and S. Green Valley Road and provides building materials, home improvement supplies, appliances and lawn and garden products.

The 2000 Amendment Sub-Area is by far the largest sub-area in the Merged Project Area, accounting for 68.1% of Merged Project Area Fiscal Year 2015-16 total assessed value. Primary land uses in the 2000 Amendment Sub-Area include _____ (%), _____ (%) and _____ (%). From Fiscal Year 2005-06 through Fiscal Year 2015-16, the rate of growth in 2000 Amendment Sub-Area total assessed value has averaged 2.52% per year.

Watsonville Municipal Airport The Airport is located on the northwest side of the City in the 2000 Amendment Sub-Area and serves approximately 40 percent of all general aviation activities in the Monterey Bay area. The City owns and operates the Airport. The Airport principally serves a general aviation fleet ranging from jet aircraft and turboprop aircraft to twin-engine and single-engine non-jet aircraft varying in size. A terminal/administration building occupies approximately 4,500 square feet and the Airport hosts more than 330 aircraft in 230 hangars and 80 tie down spots. There is also a significant helicopter operation at the airport because of a resident helicopter flight school and sightseeing charter flights. A substantial skydiving operation is based out of the Airport, with approximately 3,000 aircraft operations per year. In addition, Coast Guard helicopter and military helicopter operations occur throughout the year at the Airport. While the Airport does not contribute to secured assessed value in the Merged Project Area, aircraft are included in the unsecured values disclosed in this Official Statement. The Airport contributes to the general economy of the Merged Project Area.

History of the Merged Project Area. On May 12, 1992, the Central Sub-Area and the Westside Sub-Area were combined pursuant to Ordinance No. 893-92 and Ordinance No. 892-92, respectively (together, the “1992 Amendment”). In addition to combining the two original project areas, the 1992 Amendment added the Downtown Added Area and the Westside Added Area. The Merged Project Area was completed by the addition of the 2000 Amendment Sub-Area and today contains a total of 1,280 acres, representing 44% of the City’s total acreage.

The following table sets forth the assessed values and incremental value for the Central Sub-Area, Westside Sub-Area and 2000 Amendment Sub-Area components of the Merged Project Area.

Table 2
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Fiscal Year 2015-16 Assessed Values and Incremental Value

Description	Central⁽¹⁾ Project Area	Westside⁽¹⁾ Project Area	2000 Amendment	Total All Areas
Assessed Value				
Secured Total	\$137,809,034	\$238,517,784	\$773,075,954	\$1,149,402,772
Unsecured Total	8,702,744	33,083,132	117,508,230	159,294,106
Total Assessed Value	146,511,778	271,600,916	890,584,184	1,308,696,878
Less: Base Year	23,473,678	47,469,975	425,484,116	496,427,769
Incremental Value	\$123,038,100	\$224,130,941	\$465,100,068	\$ 812,269,109

Source: DHA Consulting, LLC.

The Redevelopment Plan

The Redevelopment Plan for the Merged Project Area, adopted pursuant to the Redevelopment Law (Section 33000 of the Health and Safety Code) and approved by the City Council of the City by Ordinance No. 1092-00, effective July 27, 2000 (the “Redevelopment Plan”), amended and restated the existing redevelopment plans. A redevelopment agency may only undertake those activities within a redevelopment project specifically authorized in the adopted redevelopment plan. A redevelopment plan is a legal document, the content of which is largely prescribed in the Redevelopment Law rather than a “plan” in the customary sense of the word. The Redevelopment Plan for the Merged Project Area provides, among other things, the following major goals:

- A. The elimination of blighting influences and the correction of environmental deficiencies in the Merged Project Area, including, among others, small and irregular lots, obsolete and aged building types, depreciated property values and impaired investments, incompatible and uneconomic land uses, and inadequate or deteriorated public improvements, facilities and utilities.
- B. The assembly of land into parcels suitable for modern, integrated development with improved pedestrian and vehicular circulation in the Merged Project Area.
- C. The replanning, redesign and development of undeveloped or underdeveloped areas which are stagnant or improperly utilized.
- D. The providing of opportunities for participation by owners and tenants in the revitalization of their properties.
- E. The strengthening of retail and other commercial functions in the Merged Project Area.
- F. The strengthening of the economic base of the Merged Project Area and the community by the installation of needed site improvements to stimulate new commercial and industrial expansion, employment and economic growth.
- G. The provision of adequate land for parking and open spaces.

H. The establishment and implementation of performance criteria to assure high site design standards and environmental quality and other design elements which provide unity and integrity to the entire Merged Project Area.

I. The expansion, improvement, and preservation of the community's supply of low- and moderate-income housing.

J. The encouragement of active and continuous participation of Merged Project Area occupants in the formation, refinement, and implementation of the Redevelopment Plan, in order to ensure that Redevelopment Plan proposals are beneficial to the people who live and work within the Merged Project Area, as well as the community in general.

Pursuant to the Redevelopment Plan, the Former Agency undertook redevelopment activities in the Merged Project Area.

No Redevelopment Plan Limitations

The Redevelopment Plan sets forth various limitations that are no longer operative with the passage of SB 107. SB 107, which became effective September 22, 2015, amended the Dissolution Act to provide that the time limits for receiving property tax revenues and the limitation on the amount of property tax revenues that may be received by the Former Agency and the Successor Agency set forth in the Redevelopment Plan are not effective for purposes of paying the Successor Agency's enforceable obligations. Accordingly, the projections set forth in this Official Statement were prepared without regard to the time and financial limitations set forth in the Redevelopment Plan for the Merged Project Area.

Land Use

There are various land uses within the Merged Project Area. The Central Sub-Area consists primarily of commercial development in the old town center of the City within the Merged Project Area. This development contains dense strip commercial uses along Main Street, with some residential uses along the commercial fringe. In the Central Sub-Area, current development is primarily redevelopment of under-used parcels that are largely already developed.

The Westside Sub-Area consists primarily of food processing industrial uses, clustered along West Beach Street within the Merged Project Area. There are many opportunities for development in this area of under-used parcels that are already developed. In particular, there are opportunities for reuse of packing sheds and food processing facilities.

Adjacent to the Westside Sub-Area, but not included in the Merged Project Area, is the planned development of a new Federal Express package distribution facility, that may indirectly benefit the Westside Sub-Area. Federal Express has proposed a 194,000-square-foot facility on the property between Highway 1, the Seaview Ranch housing complex and Ohlone Parkway. The new facility would be built on a 25 acre site and replace Federal Express' existing facility located at 165 Technology Drive. The new facility is expected to provide between 300 to 600 jobs and to assist the development of an additional 70 acres of real property as result of improved infrastructure.

The area added by the 2000 Amendment Sub-Area contains a mix of uses, including commercial, residential, industrial and the Airport. For a discussion of the Airport, see “– Merged Project Area Components – 2000 Amendment Sub-Area – Watsonville Municipal Airport” above.

The following table shows the assessed valuation for different categories of land uses within the Merged Project Area:

Table 3
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Assessed Values by Land Use
Fiscal Year 2015-16

<u>Category</u>	<u>Number of Assessments⁽¹⁾</u>	<u>% of Total Assessments</u>	<u>Total Value</u>	<u>% of Total Value</u>
Residential	1,538	38.7%	\$ 410,327,099	31.4%
Commercial	453	11.4%	371,201,541	28.4%
Industrial	189	4.8%	325,806,129	24.9%
Recreational	9	0.2%	3,692,870	0.3%
Institutional	25	0.6%	9,252,850	0.7%
Vacant Land	141	3.5%	27,665,330	2.1%
SBE	1	0.0%	31,120	0.0%
Unsecured	1,577	39.7%	159,294,106	12.2%
Cross Reference ⁽²⁾	4	0.1%	231,902	0.0%
Other	<u>37</u>	<u>0.9%</u>	<u>1,193,931</u>	<u>0.1%</u>
Total	3,974	100.0%	\$1,308,696,878	100.0%

Source: DHA Consulting, LLC, Santa Cruz County Assessor's Records.

⁽¹⁾ Includes the number of secured and unsecured assessments, which totals more than the number of parcels in the Merged Project Area.

⁽²⁾ May include escaped assessments, possessory interest and other assessments that are cross-referenced to secured parcel numbers.

Largest Taxpayers

The following table shows the ten largest taxpayers in the Merged Project Area based on the assessment roll for the 2015-16 tax year:

Table 4
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Major Assessee - Secured and Unsecured

No.	Assessee	Use	No. of Assmts.	2015-16	Percentage of Total Assessed Value	Percentage of Total Increment
1	Martinelli and Company ⁽¹⁾	Food Processing Plant	7	\$ 40,014,620	3.06%	4.93%
2	Harvest Drive Properties LLC HD Development of Maryland	Warehousing and Processing	2	20,112,475	1.54%	2.48%
3	(Home Depot)	Retail Home Improvement	2	18,990,184	1.45%	2.34%
4	Freedom Associates	Light Industrial	17	18,476,039	1.41%	2.27%
5	WRI Freedom Center LP	Shopping Center	2	18,227,170	1.39%	2.24%
6	Terminal Freezers	Industrial	5	18,006,246	1.38%	2.22%
7	Fox Factory Inc. Richard H. Allen	Unsecured	1	16,147,338	1.23%	1.99%
8	Successor Trustee	Commercial Retail	3	16,002,840	1.22%	1.97%
9	Del Mar Food Products	Processing Plant; Automotive	2	15,996,330	1.22%	1.97%
10	Granite Construction Company	Office	11	15,257,242	1.17%	1.88%
				52	\$ 197,230,484	15.07%
						24.28%
Total Project Assessed Value					\$1,308,696,878	
Total Incremental Assessed Value						\$ 812,269,109

Source: DHA Consulting, LLC, Santa Cruz County Assessor's Records.

⁽¹⁾ Includes Martinelli Company Products, LLC and S. Martinelli and Company, Inc.

Assessed Values and the Real Estate Market

Assessed values are impacted, at least indirectly, by the general economy and real estate market conditions. Because of the peculiarities of property tax assessment in the State, only properties that sell or undergo new construction are subject to an increased assessment beyond the 2 percent increase allowed under Proposition 13 for property tax purposes. The real estate market in California experienced some unprecedented declines in the values for residential, commercial and other types of property starting in 2007. By 2011, the median sales prices for single family homes in the County had declined by 58 percent from sales prices that were achieved in 2006. The assessed values for a number of properties in the City were reduced by the County Assessor commencing in Fiscal Year 2008-09 to reflect reduced market values for real estate. These reductions were offset, at least in part, by increases in other types of property transactions. The impacts of these reductions by the County were greatest for residential properties, but commercial and industrial properties also experienced market declines and assessed value reductions.

Since 2011, real estate prices for single family homes have been increasing each year with the median sales prices in 2015 representing a 61 percent increase above 2011 levels. The 2015 median value of \$420,000 is still below the 2006 median price of \$623,000. A forecast of future economic and real estate conditions within the Merged Project Area was not conducted. However, widespread additional valuation reductions for residential properties are not anticipated by the Redevelopment Consultant. The following table shows historical housing median sales prices for the past ten years.

Table 5
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Historical Housing Prices⁽¹⁾

Calendar Year	Number Units Sold	Median Sales Prices	% Change in Price
		Current Year	Prior Year
2006	866	\$623,250	0.5%
2007	400	560,000	-10.1%
2008	576	345,000	-38.4%
2009	703	261,500	-24.2%
2010	522	275,000	5.2%
2011	525	260,000	-5.5%
2012	584	279,000	7.3%
2013	502	333,000	19.4%
2014	442	410,000	23.1%
2015	505	420,000	2.4%

Source: CoreLogic; Provided by DQNews.

Tax Rates

In 1978 when Proposition 13 was passed, special provisions were made for cities levying taxes for a pension levy. These cities were allowed to treat their pension levies as voter approved debts that were converted to override rates (rates in excess of 1.0 percent) in the implementation of Proposition 13: Watsonville was one of these cities. The difference between a typical voter approved debt and pension levies is that debt issues have fixed payment schedules that eventually mature, and pension levies do not. As a result, the City of Watsonville can continue to levy its override rate as long as it has pension obligations to fund. Historically, the pension levy in Watsonville has ranged from a high of 0.1440% to the Fiscal Year 2014-15 rate of about 0.077%. In Fiscal Year 2007-08 through Fiscal Year 2014-15 the tax rate for the Merged Project Area was 1.077%, which included the 1.0% rate, the pension levy at 0.77% and no other eligible debt service rates.

Starting with Fiscal Year 2015-16, the County is depositing property tax revenues for the Successor Agency into the Redevelopment Property Tax Trust Fund based a 1.0% tax rate, in accordance with SB 107, which was enacted in 2015. SB 107, among other things, amended Section 34183(a)(1)(B) to provide that “[n]otwithstanding subdivision (b) of Section 33670, that portion of the taxes in excess of the identified in subdivision (a) of Section 33670, which are attributable to a property tax approved by the voters of a city . . . to make payments in support of pension programs or . . . , and levied in addition to the property tax rate limited by [Proposition 13] shall be allocated to and when collected shall be paid into the fund of that taxing entity, unless the amounts in question are pledged as security for the payment of any indebtedness obligation, as defined in subdivision (e) of Section 34171, and needed for payment thereof.”

Appeals; Proposition 8 Reductions

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

There are also two primary methods for achieving a reduction in the valuation of property. One way is for the applicant to file a formal or informal assessment appeal application; the other way is for the Assessor's office to process an "automatic" assessment reduction. Any automatic reduction would almost always be a Proposition 8 appeal, although filed appeals can be either Proposition 8 or base year appeals.

Automatic Assessment Appeals. Starting in Fiscal Year 2008-09, the County, like many other counties throughout California, began processing temporary assessed value reductions for certain properties (Proposition 8 reductions in response to declining residential real estate values). These reductions were made on properties where the assessed values exceeded the current market value of properties as of the tax lien date (January 1) without prompting from individual taxpayers. The County reviewed residential properties of up to 3 units which transferred ownership starting in January 1, 2000 and made reductions to residential properties judged to be above the then market value in each year from 2008-09 through 2012-13. County-wide approximately 25,000 automatic reductions were made to residential properties. Proposition 8 reversals (i.e., assessed value increases to previously reduced properties) which occurred in Fiscal Year 2013-14 through Fiscal Year 2015-16 has reduced that number to about 12,000. The County, however, does not report the number of properties that received automatic reductions in the Merged Project Area or the amount of such reductions. The following table shows the potential recapture of Proposition 8 assessment appeals.

Table 6
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Proposition 8 Potential Recapture

Description	
2015-16 Inflation Adjusted Peak Assessed Value	\$88,056,555
2015-16 Reduced Proposition Assessed Value	65,557,035
Future Proposition 8 Recapture Potential	\$22,499,520
Number of Properties	177

Source: DHA Consulting, LLC, Santa Cruz County Assessor's Records.

The 2015-16 assessed values increases for the Merged Project Area are, in part, a reflection of the restoration of a portion of the reduced values for the automatic reductions performed by the County Assessor. As the market values for the reduced properties increase, the law allows the County to restore the assessment up to its prior level, plus inflation of up to 2.0 percent per year. As residential values have

been increasing significantly in the Watsonville area, additional value reductions from automatic reductions have not been assumed in the estimates of future tax increment revenues.

Filed Assessment Appeals. When a taxpayer believes that the assessed value of his or her property is in excess of market value, he or she may informally request that the County Assessor's office review the value of such property. If the County Assessor's office believes the taxpayer is correct, it can reduce the value without the taxpayer needing to file a formal appeal. If however, the County Assessor's office believes that the assessed value assigned to the property is not above market value, a formal appeal application must be filed and the dispute is heard before an assessment appeals board, which board determines the appropriate value for a property. Depending on the outcome of the appeal, taxes paid in the current year may be either higher or lower than the initial assessment. When an appeal results in a reduced tax liability after the disputed taxes have already been paid, a refund is subsequently issued to the taxpayer by the County, together with interest, as appropriate. Future allocations of taxes to the taxing entities, including the Successor Agency, are then reduced by the County to reflect the refund and interest paid, but only on a countywide basis. The Successor Agency does not feel the direct impact from successful appeals until the following fiscal year when assessed values and related taxes are reduced within the project area.

The County compiled appeals information for the Merged Project Area for each year since 2013-14. No appeals remain outstanding in the Merged Project Area for 2013-14 or prior fiscal years. Appeals which have been resolved to date for Fiscal Year 2013-14 and Fiscal Year 2014-15 have not had a significant impact on Merged Project Area assessed values and revenues. Thirty-eight appeals were resolved for Fiscal Year 2013-14 and 17 were resolved for Fiscal Year 2014-15. These resolved appeals resulted in reductions to assessed values 47 percent of the time. The assessed value for all 55 resolved appeals was reduced from \$225.5 million to 205.5 million, a reduction of \$19.9 million or 8.0 percent.

For Fiscal Year 2014-15, only 2 appeals remain outstanding while 19 appeals for Fiscal Year 2015-16 fiscal year are still outstanding. There are 21 total appeals outstanding with a value of \$94.4 million which could affect future Merged Project Area values and revenues in future fiscal years. If these appeals are resolved at a rate consistent with that of the resolved appeals for Fiscal Year 2013-14 and Fiscal Year 2014-15, they will not have a major impact on tax revenues.

Historical Taxable Values for the Merged Project Area

Fiscal Year 2008-09 represented the peak assessed values for the Merged Project Area. Values declined for several years thereafter and then beginning in Fiscal Year 2013-14 began to increase. The declines were largely a result of automatic reductions for existing residential properties, reduced values for commercial properties (through formal or informal assessment appeals), and some lesser declines in unsecured fixtures and personal property. The value for aircraft also declined over the period by nearly \$25 million. Unlike other property categories, the value for aircraft has yet to be restored. Aircraft values are based on the number and type of airplanes tethered at the airport in the City as of the tax lien date which can result in variations of value from year to year.

Growth accelerated in Fiscal Year 2014-15 and Fiscal Year 2015-16 with gains of 5.2 and 3.8 percent respectively. With the exception of aircraft values, the assessed values reported for 2015-16 are higher than the "peak" 2008-09 Fiscal Year. This assessed value growth is the largely the result of the return of values reduced temporarily under Proposition 8, some new industrial and residential construction and the acquisition of new equipment and personal property by existing industrial businesses.

The following table provides a summary of the historical taxable valuation and resulting incremental value over the base year in the Merged Project Area for the years past fourteen fiscal years shown. This summary is not intended to aid in the prediction of future Tax Revenues.

Table 7
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Historical Taxable Values

Year Ending <u>June 30</u>⁽¹⁾	Secured <u>Value</u>	Unsecured <u>Value</u>⁽²⁾	State <u>Assessed</u>	Assessed <u>Value</u>	Percentage <u>Change</u>	Base Year <u>Value</u>	Incremental <u>Value Over Base Year</u>	Percentage <u>Change</u>
2003	\$ 716,288,107	\$132,621,188	\$347,637	\$ 849,256,932	4.3%	\$481,169,249	\$368,087,683	4.3%
2004	744,320,632	137,703,351	171,581	882,195,564	3.9%	497,216,509	384,979,055	4.6%
2005	806,043,983	137,553,037	306,567	943,903,587	7.0%	496,427,769	447,475,818	16.2%
2006	912,745,106	156,696,124	300,376	1,069,741,606	13.3%	496,427,769	573,313,837	28.1%
2007	994,460,590	163,985,791	285,103	1,158,731,484	8.3%	496,427,769	662,303,715	15.5%
2008	1,073,828,460	169,679,857	214,488	1,243,722,805	7.3%	496,427,769	747,295,036	12.8%
2009	1,094,038,709	183,751,011	214,488	1,278,004,208	2.8%	496,427,769	781,576,439	4.6%
2010	1,049,977,088	168,591,270	268,110	1,218,836,468	-4.6%	496,427,769	722,408,699	-7.6%
2011	1,022,543,607	158,052,463	41,405	1,180,637,475	-3.1%	496,427,769	684,209,706	-5.3%
2012	1,024,955,141	148,795,256	41,405	1,173,791,802	-0.6%	496,427,769	677,364,033	-1.0%
2013	1,014,540,829	154,017,506	70,325	1,168,628,660	-0.4%	496,427,769	672,200,891	-0.8%
2014	1,044,520,747	154,481,278	31,120	1,199,033,145	2.6%	496,427,769	702,605,376	4.5%
2015	1,095,416,565	165,676,124	31,120	1,261,123,809	5.2%	496,427,769	764,696,040	8.8%
2016	1,149,371,652	159,294,106	31,120	1,308,696,878	3.8%	496,427,769	812,269,109	6.2%

Source: DHA Consulting, LLC and Office of the Santa Cruz County Auditor-Controller.

⁽¹⁾ Incremental assessed values form the basis of tax increment revenues eligible for allocation to the Successor Agency in a given fiscal year. Tax Revenues received on a fiscal year basis are used to pay debt service on a Bond Year basis.

⁽²⁾ Includes the unsecured value associated with aircraft based at the Airport, which is located in the 2000 Amendment Sub-Area. The 2016 value for the aircraft based at the Airport is \$26.1 million.

Historical Redevelopment Property Tax Trust Fund Revenues

The following table provides a summary of the actual receipts in the Redevelopment Property Tax Trust Fund for the Fiscal Years shown.

Table 8
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Historical Redevelopment Property Tax Trust Fund Revenues

Fiscal Year Ending June 30⁽¹⁾	2012	2013	2014	2015	2016⁽²⁾
Actual Receipts in the RPTTF⁽³⁾					
Tax Increment Revenue ⁽⁴⁾	\$6,975,646	\$7,358,685	\$7,666,949	\$8,254,001	\$4,546,079
Supplemental and Other Revenues	72,859	(36,528)	17,288	437,368	31,819
Total RPTTF Deposits	\$7,048,505	\$7,322,157	\$7,684,237	\$8,691,369	\$4,577,898
Actual Adjustments					
County Administrative Fees	\$ 102,958	\$ 88,708	\$ 86,368	\$ 102,686	-
Pass Through Payments	1,631,414	1,755,875	1,870,992	2,283,726	\$1,223,201
Prior Year Tax Overpayments ⁽⁵⁾	45,743	47,115	48,529	49,985	49,985
Tax Revenue	\$5,241,274	\$5,514,102	\$5,709,589	\$5,867,589	\$3,322,878

Source: The County and DHA Consulting, LLC.

⁽¹⁾ Tax Revenues received on a Fiscal Year basis are used to pay debt service on a Bond Year basis.

⁽²⁾ Amounts shown for Fiscal Year 2015-16 include only one of the two payments due prior to June 30th.

⁽³⁾ Not all tax revenues deposited in the Redevelopment Property Tax Trust Fund are distributed to the Successor Agency, only amounts required to pay approved enforceable obligations, such as the 2016 Bonds.

⁽⁴⁾ Commencing with Fiscal Year 2015-16, the property tax revenues available to the Successor Agency to pay enforceable obligations is based on a tax rate of 1.0%. In prior years the tax rate for the Merged Project Area was greater than 1.0, most recently 1.077 percent. This change resulted from the enactment of SB 107.

⁽⁵⁾ Repayment of prior fiscal year's tax allocation errors by the County. When identified in 2009, a 10-year repayment term was negotiated with the final payment of \$56,260 due on August 1, 2018.

Projected Taxable Valuation and Tax Revenues

The following table shows projected Tax Revenues and debt service coverage on the 2016 Bonds for the Bond Years set forth therein.

Table 9
Successor Agency to the Redevelopment Agency of the City of Watsonville
Merged Project Area
Projected Taxable Valuation and Tax Revenues

Bond Year Ending August 1	Increment⁽³⁾							Net Tax Revenue	Estimated Debt Service⁽⁸⁾	Debt Service Coverage
	Real⁽¹⁾	Other⁽²⁾	Above Base: \$496,427,769	Gross Tax Revenue⁽⁴⁾	Admin. Charge⁽⁵⁾	Tax Sharing Obligations⁽⁶⁾	Other⁽⁷⁾			
2016	\$1,164,597,651	\$144,099,227	\$812,269,109	\$8,246,511	\$123,698	\$2,174,066	\$49,985	\$5,898,763	\$1,693,990	3.48
2017	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	54,528	5,891,657	1,696,458	3.47
2018	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	54,619	5,891,566	1,695,430	3.47
2019	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	56,260	5,889,925	1,693,306	3.48
2020	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	1,696,542	3.50
2021	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	1,692,738	3.51
2022	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	1,692,238	3.51
2023	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	1,698,488	3.50
2024	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	1,105,988	5.38
2025	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	409,488	14.52
2026	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	405,488	14.66
2027	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	410,988	14.47
2028	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	405,488	14.66
2029	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	409,488	14.52
2030	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	402,488	14.77
2031	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	409,988	14.50
2032	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	408,738	14.55
2033	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	402,188	14.78
2034(9)	1,164,597,651	144,099,227	812,269,109	8,246,511	123,698	2,176,628	-	5,946,185	-	-

Source: DHA Consulting, LLC, Underwriter for bond debt service.

⁽¹⁾ Includes real property (land and improvements), which are assumed to remain constant over the projection time-frame.

⁽²⁾ Includes the value of secured and unsecured personal property, state assessed property and aircraft.

⁽³⁾ The base year value shown represents the total base year value, including the base year value for aircraft reported for the 2000 Amendment Sub-Area.

⁽⁴⁾ Estimated based on a 1.0% tax rate and unitary revenue of \$123,820. In years prior to 2015-16, revenues allocated to the Merged Project Area included a tax rate in excess of 1.0%.

⁽⁵⁾ Administrative charges retained by the County are estimated at 1.5% of gross tax increment.

⁽⁶⁾ A portion of the tax revenues generated in the Merged Project Area are required to be shared with the base year taxing entities.

⁽⁷⁾ Repayment of prior year tax allocation errors on the part of the County. When identified in 2009, a 10-year repayment term was negotiated with the final payment of \$56,260 due on August 1, 2018.

⁽⁸⁾ Debt service amounts shown for the Bond Year ending 2016 include interest on the 2004 Bonds paid in March 2016 and due for the August 1, 2016 payment on the 2016 Bonds.

⁽⁹⁾ SB 107, which became effective September 22, 2015, eliminated previous time and dollar limitations for former redevelopment project areas for the purpose of paying enforceable obligations. See "THE MERGED PROJECT AREA - No Redevelopment Plan Limitations" herein.

Exhibit "A"

128 of 184

County Administration Fees

The County Auditor-Controller deducts administration charges from the tax increment distributed to the Successor Agency's Redevelopment Property Tax Trust Fund for the Merged Project Area. For the purposes of the projection of Tax Revenue, the administration charges are estimated to be 1.5% of gross tax increment. The administrative charges are assumed to continue to be collected by the County Auditor Controller and will increase proportionally with the increases in revenues. County collection fees have been deducted from the projected tax increment revenues.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the 2016 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 2016 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

The various legal opinions to be delivered concurrently with the issuance of the 2016 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

Reduction in Taxable Value

Tax Revenues available to pay principal and interest on the 2016 Bonds are determined by the amount of incremental taxable value in the Merged Project Area and the current rate or rates at which property in the Merged Project Area is taxed. The reduction of taxable values of property in the Merged Project Area caused by economic factors beyond the Successor Agency's control, such as relocation out of the Merged Project Area by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation, or the complete or partial destruction of such property caused by, among other eventualities, earthquake or other natural disaster, could cause a reduction in the Tax Revenues that provide for the repayment of and security for the 2016 Bonds. Such reduction of Tax Revenues could have an adverse effect on the Successor Agency's ability to make timely payments of principal of and interest on the 2016 Bonds.

As described in greater detail under the heading "PROPERTY TAXATION IN CALIFORNIA – Article XIII A of the State Constitution," Article XIII A 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 inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the 2016 Bonds could reduce Tax Revenues available to pay principal and interest on the 2016 Bonds.

In addition to the other limitations on, and required application under the Dissolution Act of Tax Revenues on deposit in the Redevelopment Property Tax Trust Fund, described herein under the heading "RISK FACTORS," the State electorate or Legislature could adopt a constitutional or legislative property tax reduction with the effect of reducing Tax Revenues allocated to the Redevelopment Property Tax Trust Fund and available to the Successor Agency. Although the federal and State Constitutions include clauses generally prohibiting the Legislature's impairment of contracts, there are also recognized exceptions to these prohibitions. There is no assurance that the State electorate or Legislature will not at

some future time approve additional limitations that could reduce the Tax Revenues and adversely affect the source of repayment and security of the 2016 Bonds.

Risks to Real Estate Market

The Successor Agency's ability to make payments on the 2016 Bonds will be dependent upon the economic strength of the Merged Project Area. The general economy of the Merged Project Area will be subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Merged Project Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. In addition, if there is a decline in the general economy of the Merged Project Area, the owners of property within such Merged Project Area may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of Tax Revenues by the Successor Agency from the Merged Project Area. In addition, the insolvency or bankruptcy of one or more large owners of property within the Merged Project Area could delay or impair the receipt of Tax Revenues by the Successor Agency.

Reduction in Inflationary Rate

As described in greater detail below, Article XIII A of the State Constitution provides that the full cash value 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%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. The Successor Agency is unable to predict if any adjustments to the full cash value of real property within the Merged Project Area, whether an increase or a reduction, will be realized in the future.

Levy and Collection of Taxes

The Successor Agency has no independent power to levy or 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 security for and the ability of the Successor Agency to repay the 2016 Bonds.

Likewise, delinquencies in the payment of property taxes by the owners of land in the Merged Project Area, and the impact of bankruptcy proceedings on the ability of taxing agencies to collect property taxes, could have an adverse effect on the Successor Agency's ability to make timely payments on the 2016 Bonds. Any reduction in Tax Revenues, whether for any of these reasons or any other reasons, could have an adverse effect on the Successor Agency's ability to pay the principal of and interest on the 2016 Bonds.

Estimated Revenues

In estimating that Tax Revenues will be sufficient to pay debt service on the 2016 Bonds, the Successor Agency has made certain assumptions with regard to present and future assessed valuation in the Merged Project Area, future tax rates and percentage of taxes collected. The Successor 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 the tax rates are less than expected, the Tax Revenues available to pay debt service on the 2016 Bonds will be less than those projected and such reduced Tax Revenues may be insufficient to provide for the payment of principal of, premium (if any) and interest on the 2016 Bonds.

Recognized Obligation Payment Schedules

The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid thereunder, only those obligations listed in the Recognized Obligation Payment Schedule may be paid by the Successor Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each June 1 property tax distribute date, with respect to each fiscal year, the Dissolution Act requires successor agencies to prepare and approve, and submit to the successor agency's oversight board and the Department of Finance for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to each June 1 property tax distribution date. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Recognized Obligation Payment Schedule" and "PROPERTY TAXATION IN CALIFORNIA – Property Tax Collection Procedures – Recognized Obligation Payment Schedule." If the Successor Agency was to fail to file a Recognized Obligation Payment Schedule with respect to a period, the availability of Tax Revenues to the Successor Agency could be adversely affected for such period.

If a successor agency fails to submit to the Department of Finance an oversight board-approved Recognized Obligation Payment Schedule complying with the provisions of the Dissolution Act within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations, the Department of Finance may determine if any amount should be withheld by the applicable county auditor-controller for payments for enforceable obligations from distribution to taxing entities pursuant to clause (iv) in the following paragraph, pending approval of a Recognized Obligation Payment Schedule. Upon notice provided by the Department of Finance to the county auditor-controller of an amount to be withheld from allocations to taxing entities, the county auditor-controller must distribute to taxing entities any monies in the Redevelopment Property Tax Trust Fund in excess of the withholding amount set forth in the notice, and the county auditor-controller must distribute withheld funds to the successor agency only in accordance with a Recognized Obligation Payment Schedule when and as approved by the Department of Finance.

Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, the county auditor-controller is to distribute funds for each six-month period in the following order specified in Section 34183 of the Dissolution Act: (i) first, subject to certain adjustments for subordinations to the extent permitted under the Dissolution Act and no later than each January 2 and June 1, to each local Successor Agency and school entity, to the extent applicable, amounts required for pass-through payments such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including pursuant to the Pass-Through Agreements and Statutory Pass-Through Amounts; (ii) second, on each January 2 and June 1, to the Successor Agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule; (iii) third, on each January 2 and June 1, to the Successor Agency for the administrative cost allowance, as defined in the Dissolution Act; and (iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an

amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in that fiscal year (without giving effect to any pass-through obligations that were established under the Redevelopment Law).

If the successor agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations and the Department of Finance does not provide a notice to the county auditor-controller to withhold funds from distribution to taxing entities, amounts in the Redevelopment Property Tax Trust Fund for such six-month period would be distributed to taxing entities pursuant to clause (iv) above. However, the Successor Agency has covenanted to take all actions required under the Dissolution Act to include scheduled debt service on the 2016 Bonds as well as any amount required under the Indenture to replenish the Reserve Account, in Recognized Obligation Payment Schedules to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Successor Agency's Redevelopment Obligation Retirement Fund as required under the Indenture.

AB 1484 also added new provisions to the Dissolution Act implementing certain penalties in the event that the Successor Agency does not timely submit a Recognized Obligation Payment Schedule by the deadline specified in the Dissolution Act. Specifically, a Recognized Obligation Payment Schedule must be submitted by the Successor Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the Department of Finance and the State Controller no later than each February 1, commencing February 1, 2017 with respect to each subsequent fiscal year. If the Successor Agency does not submit an Oversight Board approved Recognized Obligation Payment Schedule by such deadline, the City will be subject to a civil penalty equal to \$10,000 per day for every day the schedule is not submitted to the Department of Finance. Additionally, the Successor Agency's administrative cost allowance is reduced by 25% for any fiscal year for which the Successor Agency does not submit an Oversight Board approved Recognized Obligation Payment Schedule within 10 days of the February 1 deadline. If the Successor Agency fails to submit a Recognized Obligation Payment Schedule by the February 1 deadline, any creditor of the successor agency or the department or any affected taxing entity shall have standing to, and may request a writ of mandate to, require the Successor Agency to immediately perform this duty. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications thereof on the 2016 Bonds.

Future Implementation of Dissolution Act

Several successor agencies, cities and other entities have filed judicial actions challenging the legality of various provisions of the Dissolution Act. One such challenge is an action filed on August 1, 2012, by *Syncora Guarantee Inc. and Syncora Capital Assurance Inc.* (collectively, "Syncora") against the State, the State Controller, the State Director of Finance, and the Auditor-Controller of San Bernardino County on his own behalf and as the representative of all other County Auditors in the State (Superior Court of the State of California, County of Sacramento, Case No. 34-2012-80001215). Syncora are monoline financial guaranty insurers domiciled in the State of New York, and as such, provide credit enhancement on bonds issued by state and local governments and do not sell other kinds of insurance such as life, health, or property insurance. Syncora provided bond insurance and other related insurance policies for bonds issued by former California redevelopment agencies.

The complaint alleged that the Dissolution Act, and specifically the "Redistribution Provisions" thereof (i.e., California Health and Safety Code Sections 34172(d), 34174, 34177(d), 34183(a)(4), and 34188) violate the "contract clauses" of the United States and California Constitutions (U.S. Const. art. 1, § 10, cl.1; Cal. Const. art. 1, § 9) because they unconstitutionally impair the contracts among the former

redevelopment agencies, bondholders and Syncora. The complaint also alleged that the Redistribution Provisions violate the “Takings Clauses” of the United States and California Constitutions (U.S. Const. amend. V; Cal Const. art. 1 § 19) because they unconstitutionally take and appropriate bondholders’ and Syncora’s contractual right to critical security mechanisms without just compensation.

After hearing by the Sacramento County Superior Court on May 3, 2013, the Superior Court ruled that Syncora’s constitutional claims based on contractual impairment were premature. The Superior Court also held that Syncora’s takings claims, to the extent based on the same arguments, were also premature. Pursuant to a Judgment stipulated to by the parties, the Superior Court on October 3, 2013, entered its order dismissing the action. The Judgment, however, provides that Syncora preserves its rights to reassert its challenges to the Dissolution Act in the future. The Successor Agency does not guarantee that any reassertion of challenges by Syncora or that the final results of any of the judicial actions brought by others challenging the Dissolution Act will not result in an outcome that may have a material adverse effect on the Successor Agency’s ability to timely pay debt service on the 2016 Bonds.

Bankruptcy and Foreclosure

The payment of the property taxes from Tax Revenues are derived and the ability of the County to 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. The various legal opinions to be delivered concurrently with the delivery of the 2016 Bonds (including Bond Counsel’s approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such delay would increase the possibility of delinquent tax installments not being paid in full and thereby increase the likelihood of a delay or default in payment of the principal of and interest on the 2016 Bonds.

Bond Insurance Risk Factors

In the event of default of the payment of principal or interest with respect to the 2016 Bonds when all or some becomes due, any Owner of the 2016 Bonds shall have a claim under the applicable Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policies do not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the 2016 Bonds by the Successor Agency that is recovered by the Successor Agency from the bond owner as a voidable preference under applicable bankruptcy law is covered by each Policy, however, such payments will be made by the 2016 Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the Successor Agency unless 2016 Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the 2016 Bond Insurer without appropriate consent. The 2016 Bond Insurer may direct and must consent to any remedies and the 2016 Bond Insurer’s consent may be required in connection with amendments to any applicable bond documents.

If the 2016 Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policies, the 2016 Bonds are payable solely from the moneys received pursuant to the applicable bond documents. If the 2016 Bond Insurer becomes obligated to make payments with respect to the 2016 Bonds, no assurance is given that such event will not adversely affect the market price of the 2016 Bonds or the marketability (liquidity) for the 2016 Bonds.

The long-term ratings on the 2016 Bonds are dependent in part on the financial strength of AGM and its claim paying ability. The 2016 Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of AGM and of the ratings on the 2016 Bonds insured by the 2016 Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the 2016 Bonds or the marketability (liquidity) for the 2016 Bonds.

The obligations of the 2016 Bond Insurer are contractual obligations and in an event of default by the 2016 Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the Successor Agency nor the Underwriter has made independent investigation into the claims paying ability of the 2016 Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the 2016 Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Successor Agency to pay principal and interest on the 2016 Bonds and the claims paying ability of the 2016 Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the 2016 Bond Insurer and the Policies, which includes further instructions for obtaining current financial information concerning the 2016 Bond Insurer.

No Validation Proceeding Undertaken

Code of Civil Procedure Section 860 authorizes public agencies to institute a process, otherwise known as a "validation proceeding," for purposes of determining the validity of a resolution or any action taken pursuant thereto. Section 860 authorizes a public agency to institute validation proceedings in cases where another statute authorizes its use. Relevant to the 2016 Bonds, Government Code Section 53511 authorizes a local agency to "bring an action to determine the validity of its bonds, warrants, contracts, obligations or evidences of indebtedness." Pursuant to Code of Civil Procedure Section 870, a final favorable judgment issued in a validation proceeding shall, notwithstanding any other provision of law, be forever binding and conclusive, as to all matters therein adjudicated or which could have been adjudicated, against all persons: "The judgment shall permanently enjoin the institution by any person of any action or proceeding raising any issue as to which the judgment is binding and conclusive."

The Successor Agency has not undertaken or endeavored to undertake any validation proceeding in connection with the issuance of the 2016 Bonds. The Successor Agency and Bond Counsel have relied on the provisions of AB 1484 authorizing the issuance of the 2016 Bonds and specifying the related deadline for any challenge to the 2016 Bonds to be brought. Specifically, Section 34177.5(e) of the Dissolution Act provides that notwithstanding any other law, an action to challenge the issuance of bonds (such as the 2016 Bonds), the incurrence of indebtedness, the amendment of an enforceable obligation, or the execution of a financing agreement authorized under Section 34177.5, must be brought within 30 days after the date on which the oversight board approves the resolution of the successor agency approving such financing.

It is possible that the definition of Tax Revenues could be affected by changes in law or judicial decisions relating to the dissolution of redevelopment agencies. Any action by a court to invalidate

provisions of the Dissolution Act required for the timely payment of principal of, and interest on, the 2016 Bonds could be subject to issues regarding unconstitutional impairment of contracts and unconstitutional taking without just compensation. The Successor Agency believes that the aforementioned considerations would provide some protections against the adverse consequences upon the Successor Agency and the availability of Tax Revenues for the payment of debt service on the 2016 Bonds in the event of successful challenges to the Dissolution Act or portions thereof. However, the Successor Agency provides no assurance that any other lawsuit challenging the Dissolution Act or portions thereof will not result in an outcome that may have a detrimental effect on the Successor Agency's ability to timely pay debt service on the 2016 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 Merged Project Area. In general, the owners and operators of 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 Merged 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.

Natural Disasters

The value of the property in the Merged Project Area in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes, topographic conditions such as earth movements, landslides and floods and climatic conditions such as droughts. The Merged Project Area commonly experiences flooding due to local waterways and its downstream location from the Pajaro Valley Watershed. If one or more of such conditions occur, such occurrence could cause damages of varying seriousness to the land and improvements and the value of property in the Merged Project Area could be diminished in the aftermath of such events. A substantial reduction of the value of such properties and could affect the ability or willingness of the property owners to pay the property taxes.

The Merged Project Area is located in a seismically active region of the State and faults are located near the Merged Project Area. The greatest amount of damage was due to the 1989 Loma Prieta earthquake, which was centered close to the City. In the event of property damage caused by an earthquake, the assessed valuation of affected property could be reduced. Such a reduction of assessed valuations could result in a reduction of the Tax Revenues that secure the 2016 Bonds, which in turn could impair the ability of the Successor Agency to make payments of principal of and interest on the 2016 Bonds when due.

Changes in Law

There can be no assurance that the State electorate will not at some future time adopt initiatives or that the State Legislature will not enact legislation that will amend the Dissolution Act, the Redevelopment Law or other laws or the State Constitution resulting in a reduction of Tax Revenues, which could have an adverse effect on the Successor Agency's ability to pay debt service on the 2016 Bonds and such an effect could be material.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2016 Bonds, or, if a secondary market exists, that the 2016 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.

PROPERTY TAXATION IN CALIFORNIA

Property Tax Collection Procedures

Classification. In the State, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” Secured and unsecured properties 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 a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens on the secured property arising pursuant to State law, regardless of the time of the creation of other liens.

Generally, *ad valorem* taxes are collected by a county (the “Taxing Authority”) for the benefit of the various entities (cities, schools and special districts) that share in the *ad valorem* tax (each a taxing entity) and successor agencies eligible to receive distributions from the respective Redevelopment Property Tax Trust Fund.

Collections. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (i) initiating a civil action against the taxpayer, (ii) 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, (iii) filing a certificate of delinquency for record in the county recorder’s office to obtain a lien on certain property of the taxpayer, and (iv) seizing and selling 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 the property securing the taxes to the State for the amount of taxes which are delinquent.

Penalty. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is declared in default by operation of law and declaration of the tax collector on or about June 30 of each 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% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to delinquent taxes with respect to property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on varying dates related to the tax bill mailing date.

Delinquencies. The valuation of property is determined as of the January 1 lien date as equalized in August of 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 and become delinquent August 31.

Supplemental Assessments. California Revenue and Taxation Code Section 75.70 provides for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Prior to the enactment of this law, the assessment of such changes was permitted only as of the next tax lien date following the change, and this delayed the realization of increased property taxes from the new assessments for up to 14 months. This statute provides increased revenue to the Redevelopment Property Tax Trust Fund to the extent that supplemental assessments of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the January 1 lien date. To the extent such supplemental assessments occur within the Merged Project Area, Tax Revenues may increase.

Property Tax Administrative Costs. In 1990, the Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions in proportion to the tax-derived revenues allocated to each. SB 1559 (Chapter 697, Statutes of 1992) explicitly includes redevelopment agencies among the jurisdictions which are subject to such charges. In addition, Sections 34182(e) and 34183(a) of the Dissolution Act allow administrative costs of the County Auditor-Controller for the cost of administering the provisions of the Dissolution Act, as well as the foregoing SB 1559 amounts, to be deducted from property tax revenues before monies are deposited into the Redevelopment Property Tax Trust Fund. For fiscal year 2013-14, the County's administrative charge to the Former Agency and Successor Agency, together with certain charges relating to the dissolution of the Former Agency, was \$394,594, and for fiscal year 2014-15 and future years, the County's administrative charge to the Successor Agency is estimated to be 1.23% of gross revenues.

In addition to the amounts charged by the County for administration of property taxes under SB 2557, pursuant to ABx1 26, the County may charge an administrative fee for administration of the Redevelopment Property Tax Trust Fund. The amount charged to the Successor Agency for the January 2, 2014 Redevelopment Property Tax Trust Fund allocation was \$27,544. This nominal amount has not been factored into the projections.

Statutory Pass-Through Payments. The payment of Statutory Pass-Through Payments results from (i) plan amendments which add territory in existing project areas on or after January 1, 1994 and (ii) from plan amendments which eliminates one or more limitations within a redevelopment plan (such as the removal of the time limit on the establishment of loans, advances and indebtedness). The calculation of the amount due affected taxing entities is described in Sections 33607.5 and 33607.7 of the Redevelopment Law. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Statutory Pass-Through Payments" for further information regarding the applicability of the statutory pass-through provisions of the Redevelopment Law and the Dissolution Act to the Merged Project Area.

Recognized Obligation Payment Schedule. The Dissolution Act provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Successor Agency from the funds specified in the Recognized Obligation Payment Schedule. The Dissolution Act requires successor agencies annually to prepare and approve, and submit to the Successor Agency's oversight board and the Department of Finance for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the Successor Agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Successor Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective

Recognized Obligation Payment Schedule obtained in sufficient time prior to the January 2 or June 1 distribution dates, as applicable.

County Tax Loss Reserve Fund (Teeter Plan)

Property taxes are collected for all taxing entities and redevelopment agencies by the County. The County operates under Section 4701-4717 of the California Revenue and Taxation Code (the “Teeter Plan”). Under the Teeter Plan, the County will maintain a County Tax Loss Reserve Fund for the purpose of paying each taxing entity 100% of the amounts of secured taxes levied (including tax increments) on the tax bill irrespective of any delinquent taxes. The County's present policy is to disburse Tax Increment to the Successor Agency based upon 95% of the calculated secured Tax Increment based upon the tax levy notwithstanding delinquencies or other changes to the levy amount. The remaining 5%, adjusted for taxable value changes and refunds for successful assessment appeals, is allocated by the County to the taxing entities, including the Successor Agency, on a countywide basis at the end of the fiscal year (True-up Allocation). Because the June 1 payment to the Successor Agency comes before the True-up Allocation is made, the Successor Agency is allocated the true-up payment in January of the following fiscal year. The County has the power to unilaterally discontinue this practice of paying the tax levy to the Successor Agency. The Teeter Plan may also be discontinued by petition of two-thirds (2/3) of the participant taxing agencies.

Unitary Property

Assembly Bill (“AB”) 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive that 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 is changed from March 1 to January 1.

AB 454 (Statutes of 1987, Chapter 921) further modifies chapter 1457 regarding the distribution of tax revenues derived from property assessed by the State Board of Equalization. Chapter 921 provides for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provides for a new method of establishing tax rates on State-assessed property and distribution of property tax revenue derived from State-assessed property to taxing jurisdictions within each county in accordance with a new formula. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

Article XIII A of the State Constitution

Article XIII A limits the amount of ad valorem taxes on real property to 1% of “full cash value” of such property, as determined by the county assessor. Article XIII A defines “full cash value” to mean “the County Assessor's valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” Furthermore, the “full cash value” of all real property may be increased to reflect the rate of inflation, as shown by the consumer price index, not to exceed 2% per year, or may be reduced.

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

Article XIIIIA (i) exempts from the 1% tax limitation taxes to pay debt service on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition; (ii) requires a vote of two-thirds of the qualified electorate to impose special taxes, or certain additional ad valorem taxes; and (iii) requires the approval of two-thirds of all members of the State Legislature to change any State tax laws resulting in increased tax revenues.

The validity of Article XIIIIA has been upheld by both the California Supreme Court and the United States Supreme Court.

In the general election held November 4, 1986, voters of the State approved two measures, Propositions 58 and 60, which further amended Article XIIIIA. Proposition 58 amended Article XIIIIA to provide that the terms “purchase” and “change of ownership,” for the purposes of determining full cash value of property under Article XIIIIA, 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. This amendment to Article XIIIIA may reduce the rate of growth of local property tax revenues.

Proposition 60 amended Article XIIIIA to permit the Legislature to allow persons over the age of 55 who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence assessed value to the new residence. As a result of the Legislature’s action, the growth of property tax revenues may decline.

Legislation enacted by the Legislature to implement Article XIIIIA provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value (except as noted). Tax rates for voter-approved bonded indebtedness and pension liabilities are also applied to 100% of assessed value.

Appropriations Limitation – Article XIIIIB

Article XIIIIB limits the annual appropriations of the State and its political subdivisions to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The “base year” for establishing such appropriations limit is the 1978-79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment Successor Agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by an Successor Agency of proceeds of taxes levied by or on behalf of an Successor Agency within the meaning of Article XIIIIB, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions. On the basis of these decisions, the Successor Agency has not adopted an appropriations limit.

Articles XIIIIC and XIIID of the State Constitution

At the election held on November 5, 1996, Proposition 218 was passed by the voters of California. The initiative added Articles XIIIIC and XIIID to the State Constitution. Provisions in the two articles affect the ability of local government to raise revenues. The 2016 Bonds are secured by sources of revenues that are not subject to limitation by Proposition 218. See also “—Propositions 218 and 26” below.

Proposition 87

On November 8, 1988, the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the State Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on certain bonded indebtedness issued by a taxing entity (not the Former Agency or the Successor Agency) and approved by the voters of the taxing entity after January 1, 1989 will be allocated solely to the payment of such indebtedness and not to redevelopment agencies.

Appeals of Assessed Values

Pursuant to California law, a property owner may apply for a reduction of the property tax assessment for such owner’s property by filing a written application, in a form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board.

In the County, a property owner desiring to reduce the assessed value of such owner’s property in any one year must submit an application to the County Assessment Appeals Board (the “Appeals Board”). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of each application by the staff of the County Assessor’s Office, the staff makes a recommendation to the Appeals Board on each application which has not been rejected for incompleteness or untimeliness or withdrawn. The Appeals Board holds a hearing and either reduces the assessment or confirms the assessment. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal’s filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as “ongoing hardship”), the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. Appeals for reduction in the “base year” value of an assessment, which generally must be made within three years of the date of change in ownership or completion of new construction that determined the base year, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. Moreover, in the case of any reduction in any one year of assessed value granted for “ongoing hardship” in the then current year, and also in any cases involving stipulated appeals for prior years relating to base year and personal property assessments, the property tax revenues from which Tax Revenues are derived attributable to such properties will be reduced in the then current year. In practice, such a reduced assessment may remain in effect beyond the year in which it is granted. See “THE MERGED PROJECT AREA” for information regarding the assessed valuations of the largest taxpayers within the Merged Project Area.

Proposition 8

Proposition 8, approved in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value

compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions 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 code 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 may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIIIIA 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 XIIIIA.

The Successor Agency cannot guarantee that reductions undertaken by the County Assessor or requested by a property owner pursuant to Proposition 8 will not in the future reduce the assessed valuation of property in the Merged Project Area and, therefore, Tax Revenues that secure the 2016 Bonds.

Propositions 218 and 26

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 XIIIIC and XIIIID to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. On November 2, 2010, California voters approved Proposition 26, the “Supermajority Vote to Pass New Taxes and Fees Act.” Proposition 26 amended Article XIIIIC of the California Constitution by adding an expansive definition for the term “tax,” which previously was not defined under the California Constitution. Tax Revenues securing the 2016 Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which are limited by Proposition 218 and outside of the scope of taxes which are limited by Proposition 26.

Future Initiatives

Article XIIIIA, Article XIIIIB, Article XIIIIC and Article XIIIID and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to State’s initiative process. From time to time other initiative measures could be adopted, further affecting Tax Revenues.

TAX MATTERS

Tax Matters – 2016A Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Successor Agency, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2016A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2016A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however,

is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Successor Agency in connection with the 2016A Bonds, and Bond Counsel has assumed compliance by the Successor Agency with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2016A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Successor Agency, under existing statutes, interest on the 2016A Bonds is exempt from State personal income tax.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2016A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2016A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2016A Bonds in order that interest on the 2016A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2016A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2016A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Successor Agency has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2016A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2016A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2016A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2016A Bonds.

Prospective owners of the 2016A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2016A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a 2016A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the 2016A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2016A Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any 2016A Bonds having OID (a “Tax-Exempt Discount Bond”), OID that has accrued and is properly allocable to the owners of the Tax-Exempt Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2016A Bonds.

In general, under Section 1288 of the Code, OID on a Tax-Exempt Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Tax-Exempt Discount Bond. An owner’s adjusted basis in a Tax-Exempt Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such 2016A Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Tax-Exempt Discount Bond even though there will not be a corresponding cash payment.

Owners of Tax-Exempt Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Tax-Exempt Discount Bonds.

Bond Premium

In general, if an owner acquires a 2016A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2016A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that 2016A Bond (a “Tax-Exempt Premium Bond”). In general, under Section 171 of the Code, an owner of a Tax-Exempt Premium Bond must amortize the bond premium over the remaining term of the Tax-Exempt Premium Bond, based on the owner’s yield over the remaining term of the Tax-Exempt Premium Bond determined based on constant yield principles (in certain cases involving a Tax-Exempt Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Tax-Exempt Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a Tax-Exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Tax-Exempt Premium Bond may realize a taxable gain upon disposition of the Tax-Exempt Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Tax-Exempt Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Tax-Exempt Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2016A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2016A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2016A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2016A Bonds under Federal or state law or otherwise prevent beneficial owners of the 2016A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2016A Bonds. For example, the Fiscal Year 2017 Budget proposed by the Obama Administration recommends a 28% limitation on “all itemized deductions, as well as other tax benefits” including “tax-exempt interest.” The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond, regardless of issue date.

Prospective purchasers of the 2016A Bonds should consult their own tax advisors regarding the foregoing matters.

Tax Matters – 2016B Bonds

In the opinion of Bond Counsel to the Successor Agency, interest on the 2016B Bonds (the “Taxable Bonds”) (i) is included in gross income for Federal income tax purposes, and (ii) is exempt, under existing statutes, from State personal income tax.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Taxable Bonds by original purchasers of the Taxable Bonds who are “U.S. Holders”, as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Taxable Bonds will be held as “capital assets”; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Taxable Bonds as a position in a “hedge” or “straddle”, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders

who acquire Taxable Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Taxable Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Original Issue Discount (“OID”) is greater than a statutorily defined de minimis amount, a holder of a Taxable Bond must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Taxable Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Taxable Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Taxable Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “de minimis amount” is an amount equal to 0.25 percent of the Taxable Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Taxable Bond using the constant-yield method, subject to certain modifications.

Bond Premium

In general, if a Taxable Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Taxable Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder’s original acquisition cost.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Taxable Bond.

The Successor Agency may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Bonds to be deemed to be no longer outstanding under the of the Indenture Taxable Bonds (a “defeasance”). See APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Taxable Bonds subsequent to any such defeasance could also be affected.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to non-corporate holders of the Taxable Bonds with respect to payments of principal, payments of interest, and the accrual of OID on a Taxable Bond and the proceeds of the sale of a Taxable Bond before maturity within the United States. Backup withholding may apply to holders of Taxable Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders

The term “U.S. Holder” means a beneficial owner of a Taxable Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, could affect the market price or marketability of the Taxable Bonds.

Prospective purchasers of the Taxable Bonds should consult their own tax advisors regarding the foregoing matters.

UNDERWRITING

The 2016A Bonds are being purchased by Hilltop Securities Inc. (the “Underwriter”). The Underwriter has agreed to purchase the 2016A Bonds at a price of \$_____ (being the principal amount of the 2016A Bonds [plus/minus] a net original issue [premium/discount] of \$_____ and less an underwriter’s discount of \$______). The 2016B Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the 2016B Bonds at a price of \$_____ (being the principal amount of the 2016B Bonds less an original issue discount of \$_____ and less an underwriter’s discount of \$______). The purchase contract for the 2016 Bonds provides that the Underwriter will purchase all of the 2016 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

FINANCIAL ADVISOR

The Successor Agency has retained the Financial Advisor in connection with the authorization, issuance, sale and delivery of the 2016 Bonds. The Financial Advisor is a registered municipal advisor. The Financial Advisor will receive compensation contingent upon the sale and delivery of the 2016 Bonds.

VERIFICATION OF MATHEMATICAL ACCURACY

Upon delivery of the 2016 Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them that were prepared by the Successor Agency, relating to the sufficiency of monies to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements with respect to the Prior Bonds. The report of the Verification Agent will include the statement to the effect that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or date or information coming to its attention, subsequent to the date of its report.

LITIGATION

There is no action, suit or proceeding known to the Successor Agency to be pending and notice of which has been served upon and received by the Successor Agency, or threatened, restraining or enjoining the execution or delivery of the 2016 Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the Successor Agency taken with respect to any of the foregoing.

LEGALITY FOR INVESTMENT IN CALIFORNIA

The Redevelopment Law provides that obligations authorized and issued under the Redevelopment Law will be legal investments for all banks, trust companies and savings banks, insurance companies, and various other financial institutions, as well as for trust funds. The 2016 Bonds are also authorized security for public deposits under the Redevelopment Law.

RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), is expected to assign a rating of "—" to the Insured Bonds with the understanding that upon delivery of the Insured Bonds, the Policies guarantying the payment of principal of and interest on each Series of the Insured Bonds when due will be issued by the 2016 Bond Insurer. See "BOND INSURANCE." In addition, S&P has assigned its underlying rating of "—" to the 2016 Bonds.

Such ratings reflect only the views of S&P and any desired explanation of the significance of such ratings should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2016 Bonds. Investors should not make an investment decision based solely on the ratings of S&P. Investors must read this entire Official Statement to obtain information essential to making an informed investment decision with respect to the 2016 Bonds.

CONTINUING DISCLOSURE

The Successor Agency has covenanted for the benefit of the holders and beneficial owners of the 2016 Bonds pursuant to a Continuing Disclosure Certificate, dated the date of issuance of the 2016 Bonds (the “Continuing Disclosure Certificate”), to provide certain financial information and operating data relating to the Successor Agency (the “Annual Report”) no later than March 1 following the end of each fiscal year, commencing with the report for Fiscal Year 2015-16, and to provide notices of the occurrence of certain enumerated events through the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for Municipal Securities disclosures, maintained on the internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and the enumerated events is set forth in APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12, as amended (the “Rule”) promulgated by the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

The Successor Agency did comply with the disclosure undertaking for the Prior Bonds in the following respects: [to come].

APPROVAL OF LEGAL PROCEEDINGS

The issuance of each Series of 2016 Bonds is subject to the respective approving opinion of Bond Counsel, to be delivered in substantially the form set forth in APPENDIX B. Norton Rose Fulbright US LLP has undertaken no responsibility to the Owners for the accuracy, completeness or fairness of this Official Statement or any other offering material related to the 2016 Bonds, and expresses no opinion to the Owners with respect thereto.

EXECUTION AND DELIVERY

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

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE

By: _____
Executive Director

APPENDIX A
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX B
FORM OF BOND COUNSEL OPINION

APPENDIX C

BOOK-ENTRY SYSTEM

The information in this APPENDIX C concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Successor Agency takes no responsibility for the completeness or accuracy thereof. The Successor Agency cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2016 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2016 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2016 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2016 Bonds. The 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing Successor Agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2016 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2016 Bonds, except in the event that use of the book-entry system for the 2016 Bonds is discontinued.

To facilitate subsequent transfers, all 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of 2016 Bonds may wish to ascertain that the nominee holding the 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2016 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Successor Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any), and interest payments on the 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Successor Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Successor Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the 2016 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Successor Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2016 Bonds at any time by giving reasonable notice to the Successor Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the 2016 Bonds are required to be printed and delivered.

The Successor Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the 2016 Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

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

APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

APPENDIX F
STATE DEPARTMENT OF FINANCE APPROVAL LETTER

APPENDIX G

SUPPLEMENTAL INFORMATION – THE CITY OF WATSONVILLE

The following information relating to the City of Watsonville, California (the “City”) is provided for informational purposes only. The 2016 Bonds (as defined in the front part of this Official Statement) are payable solely as described in this Official Statement and are not payable or secured by a pledge of the faith and credit or taxing power of the City.

APPENDIX H

SPECIMEN FINANCIAL GUARANTEE INSURANCE POLICY

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Successor Agency to the Redevelopment Agency of the City of Watsonville (the "Successor Agency") in connection with the issuance of \$ _____ aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A (the "2016A Bonds") and \$ _____ aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B (the "2016B Bonds" and, together with the 2016A Bonds, the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2016 (the "Indenture"), between the Successor Agency and U.S. Bank National Association, as trustee (the "Trustee"). In connection therewith the Successor Agency covenants and agrees as follows:

Section 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Successor Agency for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters (as defined herein) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

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

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

"Disclosure Representative" shall mean the _____ of the Successor Agency or his or her designee, or such other officer or employee as the Successor Agency shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean _____, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Successor Agency.

"Holder" shall mean either the registered owners of the Bonds or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement for the Bonds dated _____, 2016.

“Participating Underwriter” shall mean any of the original underwriter of the Bonds listed in the Official Statement required to comply with the Rule in connection with offering of the Bonds.

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

“SEC” shall mean the United States Securities and Exchange Commission.

“State” shall mean the State of California.

Section 3. Provision and Contents of Annual Report.

(a) The Successor Agency shall, or shall cause the Dissemination Agent to, no later than March 1 following the end of each fiscal year of the Successor Agency, commencing with the report for Fiscal Year 2015-16, provide to the MSRB, through EMMA, a postaudit of the financial transactions and records of the Successor Agency for the Fiscal Year. If the Successor Agency’s postaudit is not available by the time such postaudit is required to be filed pursuant to this Section 3(a), an unaudited statement of financial transactions and records of the Successor Agency in a format required by Section 34177(n) of the Health and Safety Code of the State of California shall be provided to the Dissemination Agent, and the postaudit shall be filed when it becomes available. The postaudit shall constitute the Annual Report hereunder. The Annual Report may be contained in the City of Watsonville’s comprehensive annual financial report (“CAFR”) and submission of such CAFR to the MSRB through EMMA shall constitute compliance for submission of the postaudit required hereunder. Each Annual Report shall also contain the following information for the immediately prior Fiscal Year.

[to come]

(b) The Annual Report must be submitted in electronic format, accompanied by such identifying information as required by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3(d) of this Disclosure Certificate. If the Fiscal Year changes for the Successor Agency, the Successor Agency shall give notice of such change in the manner provided hereunder.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements or other disclosure documents of debt issues of

the Successor Agency or related public entities, available to the public on EMMA or filed with the SEC. The Successor Agency shall clearly identify each such other document so included by reference.

(d) The contents, presentation and format of the Annual Report may be modified from time to time as determined in the judgment of the Successor Agency to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Successor Agency or to reflect changes in the business, structure, operations, legal form of the Successor Agency.

(e) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(f) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

(ii) file a report with the Successor Agency and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Reserved.

Section 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this section, upon the occurrence of any of the following events (in each case to the extent applicable) with respect to the Bonds, the Successor Agency shall give, or cause to be given by so notifying the Dissemination Agent in writing and instructing the Dissemination Agent to give, notice of the occurrence of such event, in each case, pursuant to Section 5(c) hereof:

1. principal or interest payment delinquencies;
2. non-payment related defaults, if material;
3. modifications to the rights of the Bondholders, if material;
4. optional, contingent or unscheduled calls, if material, and tender offers;
5. defeasances;
6. rating changes;
7. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue

(IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds, if material;
12. bankruptcy, insolvency, receivership or similar proceedings of the Successor Agency, which shall occur as described below;
13. appointment of a successor or additional trustee or the change of name of a trustee, if material, or;
14. the consummation of a merger, consolidation, or acquisition involving the Successor Agency or the sale of all or substantially all of the assets of the Successor Agency other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

For these purposes, any event described in item 12 of this Section 5(a) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Successor Agency in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Successor Agency, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Successor Agency.

(b) Upon receipt of notice from the Successor Agency and instruction by the Successor Agency to report the occurrence of any Listed Event, the Dissemination Agent shall provide notice thereof to the MSRB in accordance with Section 5(c) hereof. In the event the Dissemination Agent shall obtain actual knowledge of the occurrence of any of the Listed Events, the Dissemination Agent shall, immediately after obtaining such knowledge, contact the Disclosure Representative, inform such person of the event, and request that the Successor Agency promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(c). For purposes of this Disclosure Certificate, "actual knowledge" of the occurrence of such Listed Event shall mean actual knowledge by the Dissemination Agent, if

other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Dissemination Agent shall have no responsibility to determine the materiality, if applicable, of any of the Listed Events.

(c) The Successor Agency, or the Dissemination Agent, if the Dissemination Agent has been instructed by the Successor Agency to report the occurrence of a Listed Event, shall file a notice of such occurrence with the MSRB in a timely manner not more than ten business days after the occurrence of the event.

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

Section 7. Dissemination Agent. The Successor Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, _____, upon notice from the Successor Agency, shall be the Dissemination Agent. The initial Dissemination Agent shall be _____. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Successor Agency pursuant to this Disclosure Certificate. The Dissemination Agent shall receive compensation for the services provided pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing thirty (30) days written notice to the Successor Agency and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Successor Agency, the Trustee and the Dissemination Agent may amend this Disclosure Certificate provided, the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder, and any provision of this Disclosure Certificate may be waived, provided that in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Successor Agency shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Successor Agency.

Section 9. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Certificate shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Successor Agency from disseminating any other information, using the

means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Successor Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Successor Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Successor Agency or the Dissemination Agent to comply with any provision of this Disclosure Certificate, the Trustee, at the written request of any Participating Underwriter or the Holders of at least 25% of the aggregate principal amount of Outstanding Bonds and upon provision of indemnification satisfactory to the Trustee, shall, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Successor Agency or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Successor Agency or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance hereunder.

Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Certificate as if the Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations on liability afforded to the Trustee thereunder. The Dissemination Agent (if other than the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Successor Agency agrees to indemnify and save the Trustee and the Dissemination Agent, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding any loss, expense and liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Successor Agency under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the Successor Agency:

To the Dissemination Agent:

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Successor Agency, the Trustee, the Dissemination Agent, the Participating Underwriter

and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: , 2016

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF
WATSONVILLE

By: _____

Title: _____

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Successor Agency to the Redevelopment Agency of the City of Watsonville

Name of Bond Issue: \$ _____ aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Series A and \$ _____ aggregate principal amount of Successor Agency to the Redevelopment Agency of the City of Watsonville 2016 Tax Allocation Refunding Bonds, Taxable Series B

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the Successor Agency to the Redevelopment Agency of the City of Watsonville (the "Successor Agency") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Certificate, dated as of _____, 2016, executed and delivered by the Successor Agency and _____, as trustee (the "Trustee"). The Successor Agency anticipates that the Annual Report will be filed by _____, 20__.

Dated: _____, 20__

_____, as _____ on behalf of the Successor Agency

By: _____
Authorized Officer

cc: Successor Agency to the Redevelopment Agency of the City of Watsonville

<p>\$[2016A Par Amount] Successor Agency to the Redevelopment Agency of the City of Watsonville Watsonville 2000 Merged Project Area Tax Allocation Revenue Refunding Bonds, Series 2016A</p>	<p>\$[2016B Par Amount] Successor Agency to the Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project Taxable Tax Allocation Revenue Refunding Bonds, Series 2016B</p>
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BOND PURCHASE CONTRACT

[Pricing Date]. 2016

Successor Agency to the Redevelopment Agency of the City of Watsonville
Watsonville, California

Ladies and Gentlemen:

Hilltop Securities Inc. (the "Underwriter"), acting not as fiduciary or agent for you, but on behalf of itself, hereby offers to enter into this Bond Purchase Contract (this "Purchase Contract") with the Successor Agency to the Redevelopment Agency of the City of Watsonville (the "Successor Agency") for the purchase from the Successor Agency, of its \$[2016A Par Amount] Tax Allocation Revenue Refunding Bonds, Series 2016A (the "2016A Bonds") and \$[2016B Par Amount] Taxable Tax Allocation Revenue Refunding Bonds, Series 2016B (the "2016B Bonds" and, together with the 2016A Bonds, the "Bonds"). This offer is made subject to acceptance hereof by the Successor Agency prior to 11:59 p.m., California time, on the date hereof, and upon such acceptance, as evidenced by the signature of the Chief Financial Officer of the Successor Agency in the space provided herein. This Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon the Successor Agency and the Underwriter.

The Successor Agency acknowledges and agrees that: (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between the Successor Agency and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to such transaction, the Underwriter is and has been acting solely as principal and not as the agent or a fiduciary of the Successor Agency; (iii) the Underwriter has not assumed a fiduciary responsibility in favor of the Successor Agency with respect to: (x) the offering of the Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the Successor Agency or affiliates of the Successor Agency on other matters); or (y) any other obligation to the Successor Agency except the obligations expressly set forth in this Purchase

Contract; and (iv) the Successor Agency has consulted with its own legal, financial and other advisors to the extent it has deemed appropriate in connection with the offering of the Bonds.

1. Purchase and Sale of the Bonds. Upon the terms and conditions and upon the basis of the representations and agreements herein set forth, the Successor Agency hereby agrees to sell and the Underwriter hereby agrees to purchase from the Successor Agency for offering to the public all (but not less than all) of the Successor Agency's:

(i) 2016A Bonds at a price of \$_____ (being the principal amount of the 2016A Bonds of \$[2016A Par Amount], [plus a net original issue premium of \$_____] and less an underwriters' discount of \$_____); and

(ii) the 2016B Bonds at a price of \$_____ (being the principal amount of the 2016B Bonds of \$[2016B Par Amount], [plus a net original issue premium of \$_____] and less an underwriters' discount of \$_____).

The Bonds will be issued under an Indenture, dated as of [Dated Date], 2016 (the "Indenture"), by and between the Successor Agency and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds will mature and bear interest at the interest rates as shown in Appendix A hereto and will be subject to redemption according to the terms set forth in the Indenture. The Bonds will be authorized and issued pursuant to the Indenture approved by Resolution No. _____ adopted by the Successor Agency on _____, 2016 (the "Resolution"), and by Resolution No. _____ adopted by the Oversight Board for the Successor Agency on _____, 2016 (the "Oversight Board Resolution"), and in accordance with Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the "Bond Law"), Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 ("AB 1484"), enacted as Chapter 26, Statutes of 2012 (the "Dissolution Act"), and the Constitution and other applicable laws of the State of California (the "State").

The Underwriter agrees to make a bona fide public offering of the Bonds at the initial offering yields set forth in the Official Statement; however, the Underwriter reserves the right to make concessions to dealers and to change such initial offering yields as the Underwriter shall deem necessary in connection with the marketing of the Bonds. The Underwriter agrees that, in connection with the public offering and initial delivery of the Bonds to the purchasers thereof from the Underwriter, the Underwriter will deliver or cause to be delivered to each purchaser a copy of the final Official Statement prepared in connection with the Bonds (the "Official Statement"), for the time period required under Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). Terms defined in the Official Statement are used herein as so defined.

The Redevelopment Agency of the City of Watsonville (the "Predecessor Agency") has previously issued its (i) \$19,000,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Tax Allocation Bonds, Series A; (ii) \$2,310,000 Redevelopment Agency of the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Tax Allocation Bonds, Series B-1; and (iii) \$4,635,000 Redevelopment Agency of

the City of Watsonville Watsonville 2000 Redevelopment Project 2004 Housing Taxable Tax Allocation Bonds, Series B-2 (collectively, the "2004 Bonds"). A portion of the proceeds of the Bonds will be used to refund the 2004 Bonds pursuant to Irrevocable Refunding Instructions (the "Refunding Instructions") executed by the Successor Agency.

2. Official Statement. The Successor Agency ratifies, confirms and approves the use by the Underwriter prior to the date hereof of the Preliminary Official Statement relating to the Bonds, dated [], 2016, (together with all appendices thereto, is herein called the "Preliminary Official Statement"). The Successor Agency has deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12. The Successor Agency hereby agrees to deliver or cause to be delivered to the Underwriter, within seven business days of the date hereof, copies of the final Official Statement relating to the Bonds, dated the date hereof, with only such changes from the Preliminary Official Statement as shall have been approved by the Successor Agency and the Underwriter (the "Official Statement") in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and the Rules of the Municipal Securities Rulemaking Board. The Successor Agency hereby approves of the use and distribution by the Underwriter of the Preliminary Official Statement and the Official Statement in connection with the offer and sale of the Bonds.

3. Delivery of the Bonds. At approximately 8:30 a.m., California time, on [Closing Date], 2016 or at such earlier or later time or date, as shall be agreed upon by the Successor Agency, and the Underwriter (such time and date herein referred to as the "Closing Date"), the Successor Agency shall deliver to the Underwriter the Bonds in book-entry form through the Trustee via the F.A.S.T. delivery book-entry system of The Depository Trust Company ("DTC"). The Underwriter, acting on its own behalf, shall accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof by same day funds (such delivery and payment being herein referred to as the "Closing"). The Bonds shall be made available to the Underwriter not later than the one business day before the Closing Date for purposes of inspection and packaging. The Bonds shall be delivered as registered bonds in the name of Cede & Co., Inc.

4. Representations and Agreements of the Successor Agency. The Successor Agency represents and agrees that:

(a) The Successor Agency is a public entity, duly organized and existing, and authorized to transact business and exercise powers, under and pursuant to the Constitution and laws of the State, including the Dissolution Act, and has the full legal right, power and authority (i) to enter into this Purchase Contract, (ii) to issue, sell and deliver the Bonds to the Underwriter, acting on its own behalf, as provided herein, (iii) to adopt the Resolution, and (iv) to carry out and to consummate the transactions contemplated by this Purchase Contract, the Indenture, the Continuing Disclosure Agreement, dated as of [Dated Date], 2016 (the "Disclosure Agreement"), between the Successor Agency and [], as Dissemination Agent (the "Dissemination Agent") with respect to the respective series of Bonds, and the Official Statement;

(b) The Preliminary Official Statement, as of its date was, and as of the date hereof is, true, correct and complete in all material respects and did not and does contain

any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading;

(c) The Official Statement is as of the date hereof, true, correct and complete in all material respects and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading;

(d) The Successor Agency has complied in all respects with the Bond Law, the Dissolution Act, and any other applicable laws of the State;

(e) By all necessary official action of the Successor Agency prior to or concurrently with the acceptance hereof, the Successor Agency has duly authorized and approved the Preliminary Official Statement and the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the Successor Agency of the obligations on its part contained in, the Indenture, the Refunding Instructions, the Bonds, the Disclosure Agreement and this Purchase Contract, and, as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded;

(f) As of the time of acceptance hereof and as of the time of the Closing, except as otherwise disclosed in the Official Statement, the Successor Agency is not and will not be in any material respect in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State, of the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, indenture, resolution, ordinance, agreement or other instrument to which the Successor Agency is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the adoption of the Resolution and the execution and delivery of the Bonds, the Indenture, the Refunding Instructions, the Disclosure Agreement and this Purchase Contract, and compliance with the provisions of each thereof, will not conflict in any material way with or constitute a material breach of or material default under any law, administrative regulation, judgment, decree, loan agreement, note, indenture, resolution, agreement or other instrument to which the Successor Agency is a party or is otherwise subject; and, except as described in the Official Statement, the Successor Agency has not entered into any contract or arrangement of any kind which might give rise to any lien or encumbrance on the revenues and amounts pledged pursuant to, or subject to the lien of, the Indenture;

(g) All approvals, consents and orders of any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to adoption of the Resolution approving the Indenture, execution and delivery by the Successor Agency of the Indenture, the Refunding Instructions, the Disclosure Agreement, and this Purchase Contract, and the issuance, sale and delivery of the Bonds have been obtained or will be obtained prior to the Closing;

(h) The Bonds when issued, authenticated and delivered in accordance with the respective Indenture will be validly issued, and will be valid and binding, obligations of the Successor Agency;

(i) The terms and provisions of the Indenture comply in all respects with the requirements of the Bond Law, the Dissolution Act, and the Indenture, the Refunding Instructions, the Disclosure Agreement and this Purchase Contract, when properly executed and delivered by the respective parties thereto and hereto, will constitute the valid, legal and binding obligations of the Successor Agency enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and general rules of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity);

(j) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending against the Successor Agency and notice of which has been served upon the Successor Agency, or to the best knowledge of the officer of the Successor Agency executing this Purchase Contract threatened against the Successor Agency, affecting the existence of the Successor Agency or the titles of its members or officers, or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the payment or collection of any amounts pledged or to be pledged to pay the principal of, redemption premium, if any, and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Refunding Instructions, the Disclosure Agreement or this Purchase Contract or the consummation of the transactions contemplated thereby and hereby, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the power or authority of the Successor Agency to issue the Bonds, to adopt the Resolution approving the Indenture or to execute and deliver the Indenture, the Disclosure Agreement, or this Purchase Contract, nor is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the Successor Agency's performance under the Bonds, the Indenture, the Disclosure Agreement, or this Purchase Contract, or the validity or enforceability of the Bonds, the Indenture, the Disclosure Agreement, or this Purchase Contract;

(k) The Successor Agency will, pursuant to the Disclosure Agreement, agree to provide or cause to be provided to the MSRB's Electronic Municipal Market Access system ("EMMA") certain annual financial information and operating data and agree to provide, or cause to be provided, to EMMA in a timely manner notice of certain material events respecting the Bonds. These agreements have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5). The Successor Agency compliance and noncompliance with previous undertakings with regard to said Rule 15c2-12 to provide annual reports or notices of material events is described the Preliminary Official Statement and the Official Statement.

(l) Any certificate signed by an authorized officer or official of the Successor Agency and delivered to the Underwriter shall be deemed a representation of the Successor Agency to the Underwriter as to the statements made therein;

(m) Each of the Bonds shall be secured in the manner and to the extent set forth in the applicable Indenture under which each such Bond is to be issued;

(n) The Successor Agency will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request to qualify the Bonds for offer and sale under the "blue sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, that the Successor Agency shall not be required to consent to service of process outside of California;

(o) The Successor Agency will apply the proceeds of the Bonds in accordance with the Indenture and all other applicable documents and as described in the Official Statement; and

(p) The Successor Agency shall provide to the Underwriter, not later than seven (7) business days after the date of this Purchase Contract, but in any event in sufficient time to accompany any confirmation sent by the Underwriter to a purchaser of the Bonds, not more than 50 copies of the Official Statement to satisfy the Underwriter's obligation under Rule 15c2-12 with respect to the distribution of the Official Statement.

5. Representations of the Underwriter. The Underwriter represents that it has full right, power, and authority to enter into this Purchase Contract.

6. Covenants Regarding Official Statement. The Successor Agency covenants with the Underwriter that so long as the Underwriter, or dealers, if any, are participating in the distribution of the Bonds which constitute the whole or a part of their unsold participations, if an event known to the Successor Agency occurs affecting the Successor Agency, or the transactions contemplated by the Indenture and the issuance of the Bonds, which could cause the Official Statement to contain an untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, the Successor Agency shall notify the Underwriter and if in the opinion of the Successor Agency, the Underwriter or Bond Counsel, such event requires an amendment or supplement to the Official Statement, the Successor Agency will amend or supplement the Official Statement in a form and in a manner jointly approved by the Successor Agency and the Underwriter, and the Successor Agency will bear the cost of making and printing such amendment or supplement to the Official Statement and distributing such amendment or supplement to Owners of the Bonds. The obligations of the Successor Agency under this Section 6 shall terminate on the earlier of (a) ninety (90) days from the "end of the underwriting period," as defined in Rule 15c2-12, or (b) the time when the Official Statement is available to any person from on the MSRB's Electronic Municipal Market System ("EMMA"), but in no case less than twenty-five (25) days following the end of the underwriting period. Unless otherwise notified by

the Underwriter in writing on or before the Closing Date, the Successor Agency may assume that the end of the underwriting period is the Closing Date.

7. Conditions to Obligations of Underwriter. The Underwriter has entered into this Purchase Contract in reliance upon the representations and agreements of the Successor Agency contained herein and upon the accuracy of the statements to be contained in the documents, opinions, and instruments to be delivered at the Closing. Accordingly, the Underwriter's obligation under this Purchase Contract to purchase, accept delivery of, and pay for the Bonds on the Closing Date is subject to the performance by the Successor Agency of its' obligations hereunder at or prior to the Closing. The following additional conditions precedent relate to the Closing, in connection with the Underwriter's obligation to purchase the Bonds:

(a) At the time of the Closing, (i) the representations of the Successor Agency contained herein shall be true, complete and correct in all material respects; and (ii) the Indenture shall be in full force and effect and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter;

(b) At the Closing Date, the Official Statement shall not have been materially amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter;

(c) In the reasonable judgment of the Underwriter, the market price or marketability of the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds, shall be materially adversely affected by any of the following events:

(1) Legislation shall have been favorably reported for passage in either house of the Congress of the United States of America by any committee of such house to which legislation has been referred for consideration or has been enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration, or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department of the United States of America or the Internal Revenue Service, with the purpose or effect, directly or indirectly, that in the reasonable judgment of the Underwriter materially adversely affects the marketability of the Bonds;

(2) Legislation shall have been favorably reported for passage by either house of the United States Congress by any committee of such house to which such legislation has been referred for consideration, or has been enacted (or resolution passed) by the Congress or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or

proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws as amended and then in effect;

(3) A general suspension of trading in securities on the New York Stock Exchange, or the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Bonds, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter, or a general banking moratorium or limits on loans or the amounts of loans to investment banking firms in general shall have been declared by federal, State of New York or State of California officials authorized to do so;

(4) The introduction, proposal or enactment of any amendment to the United States Constitution or California Constitution or any action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the Successor Agency, its property, income, securities (or interest thereon), the validity or enforceability of the Resolution, the Indenture or the Bonds;

(5) Any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a 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;

(6) There shall have occurred any outbreak or increase of hostilities or terrorism or other local, national or international event, act, occurrence, calamity or crisis, or there shall have occurred a financial crisis or a default with respect to the debt obligations of, or the institution of proceedings under the federal or applicable state bankruptcy laws by or against, any agency or instrumentality of the State of California;

(7) The rating of the Bonds of "___" by [Moody's Investors Service] or "___" by [Standard & Poor's Ratings Services] shall have been downgraded, suspended or withdrawn;

(8) An order, decree or injunction of any court of competent jurisdiction, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of any applicable law, rule or regulation, including (without limitation) any provision of applicable federal securities law as amended and then in effect; or

(9) A stop order, ruling, regulation or official statement by the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall have been made or any other event occurs, the effect of which is that the issuance, offering or sale of the Bonds, or the execution and delivery of the Legal Documents as contemplated hereby or by the Official Statement, is or would be in violation of any applicable law, rule or regulation, including (without limitation) any provision of applicable federal securities laws, including the Securities Act of 1933, the Securities and Exchange Act of 1934, or the Trust Indenture Act of 1939, each as amended and as then in effect.

(d) At or prior to the Closing, the Underwriter shall receive the following:

(1) The approving opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, bond counsel ("Bond Counsel"), in the form attached to the Official Statement as Appendix __, addressed to the Successor Agency, dated the date of the Closing, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it;

(2) A supplemental opinion of Bond Counsel, addressed to the Underwriter, in form and substance acceptable to the Underwriter, dated the date of Closing, to the following effect:

(i) The Successor Agency has duly and validly executed the Purchase Contract, and the Purchase Contract constitutes the legal, valid and binding agreement of the Successor Agency, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases.

(ii) The Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended, provided that no opinion is expressed with respect to the Bond Insurance Policy.

(iii) The statements and information contained or summarized in the Official Statement on the cover page and under the headings "THE

BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "TAX MATTERS," "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" and "APPENDIX B – FORM OF BOND COUNSEL OPINION" (but not including any statistical or financial information set forth under such headings, as to which no opinion need be expressed) insofar as such statements purport to summarize certain provisions of the Bonds, the Indenture and the opinion of Bond Counsel concerning certain tax matters relating to the Bonds, are accurate in all material respects;

(iv) The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended;

(3) The opinion of counsel to the Successor Agency, addressed to the Underwriter and the Successor Agency, in form and substance acceptable to each of them, dated the date of the Closing, to the following effect:

(i) The Successor Agency is a public entity, duly organized and validly existing under and by virtue of the Constitution and the laws of the State;

(ii) The Indenture, the Disclosure Agreement, the Refunding Instructions, and the Purchase Contract have been duly approved by the Resolution of the Successor Agency adopted at a regular meeting duly called and held in accordance pursuant to law and with all public notice required by law and at which a quorum of the members of the Successor Agency was continuously present, and the Resolution is in full force and effect and has not been modified, amended or rescinded;

(iii) The Indenture, the Disclosure Agreement, the Refunding Instructions, and the Purchase Contract have been duly approved by the Oversight Board Resolution adopted at a special meeting duly called and held in accordance pursuant to law and with all public notice required by law and at which a quorum of the members of the Oversight Board was continuously present, and the Oversight Board Resolution is in full force and effect and has not been modified, amended or rescinded;

(iv) Except as described in the Official Statement, there is no litigation pending against the Successor Agency and notice of which has been served on the Successor Agency, or to the best of such counsel's knowledge after due inquiry, threatened against the Successor Agency, which: (a) challenges the right or title of any member or officer of the Successor Agency to hold his or her respective office or exercise or perform the powers and duties pertaining thereto; (b) challenges the validity or enforceability of the Bonds, the Indenture, the Refunding

Instructions, the Disclosure Agreement, or the Purchase Contract; (c) seeks to restrain or enjoin the issuance and sale of the Bonds, the adoption or effectiveness of the Resolution and Indenture, or the execution and delivery by the Successor Agency of, or the performance by the Successor Agency of its obligations under the Bonds, the Indenture, the Refunding Instructions, the Disclosure Agreement, or the Purchase Contract; or (d) if determined adversely to the Successor Agency or its interests, would have a material and adverse effect upon the financial condition, assets, properties or operations of the Successor Agency; and

(v) The execution and delivery by the Successor Agency of, and the performance by the Successor Agency of its obligations under, the Bonds, the Indenture, the Refunding Instructions, the Disclosure Agreement, and the Purchase Contract, do not in any material respect conflict with, violate or constitute a default under any provision of any law, court order or decree or any contract, instrument or agreement to which the Successor Agency is a party or by which it is bound;

(4) A certificate dated the date of the Closing, signed by the [Chief Executive Officer] or appropriate officer of the Successor Agency, to the effect that: (i) the representations and covenants of the Successor Agency contained herein are true and correct in all material respects on and as of the date of the Closing with the same effect as if made on the Closing Date; (ii) the Successor Agency has complied with all the agreements and satisfied all of the conditions on its part to be performed or satisfied at or prior to the Closing; (iii) no event affecting the Successor Agency has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect; and (iv) the Indenture remains in full force and effect and has not been amended in any respect, except as approved in writing by the Underwriter, since the date of the respective Indenture;

(5) A certificate of the Trustee dated the date of the Closing, to the effect that: (i) the Trustee is organized and existing as a national banking association under and by virtue of the laws of the United States of America, having full power and being qualified and duly authorized to perform the duties and obligations of the Trustee and under and pursuant to the Indenture and the Refunding Instructions (together, the "Trustee Documents"); (ii) the Trustee has agreed to perform the duties and obligations of the Trustee as set forth in the Trustee Documents; (iii) to the best of its knowledge, compliance with the provisions on the Trustee's part contained in the Trustee Documents will not conflict with or constitute a breach of or default under the Articles of Incorporation or Bylaws of the Trustee or any material law, administrative regulation, judgment, decree, loan agreement, indenture, resolution, bond, note, agreement or other instrument to which the Trustee is a party or is otherwise

subject, as a result of which the Trustee's ability to perform its obligations under the Trustee Documents would be impaired, nor will any such compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Trustee pursuant to the Trustee Documents under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, agreement or other instrument, except as provided by the Trustee Documents; and (iv) the Trustee has not been served in any action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending nor, to the best of the knowledge of the Trustee, is any such action, suit, proceeding, inquiry or investigation threatened against the Trustee, affecting the existence of the Trustee, or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the delivery of the Bonds issued under the applicable Indenture or the collection of revenues pledged or to be pledged to pay the principal of, premium, if any, and interest on the Bonds issued under the Indenture, or the pledge thereof, or in any way contesting the powers of the Trustee or its authority to enter into or perform its obligations under the Trustee Documents, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Trustee Documents or the Disclosure Agreement;

(6) An opinion of counsel to the Trustee dated the Closing Date and addressed to the Successor Agency and the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that: (i) the Trustee has been duly organized and is validly existing and in good standing as a national banking association under the laws of the United States of America with full corporate power to undertake the trust of the Trustee Documents; (ii) the Trustee has duly authorized, executed and delivered the Trustee Documents, and by all proper corporate action has authorized the acceptance of the duties and obligations of the Trustee under the Trustee Documents and to authorize in its capacity as trustee thereunder the authentication and delivery of the Bonds; (iii) assuming due authorization, execution and delivery by the City, the Trustee Documents are valid, legal and binding agreements of the Trustee, enforceable in accordance with their terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights in general and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law); (iv) exclusive of federal or state securities laws and regulations, to the best of such counsel's knowledge after reasonable inquiry and investigation, other than routine filings required to be made with governmental agencies in order to preserve the Trustee's authority to perform a trust business (all of which routine filings such counsel believes, after reasonable inquiry and investigation, to have been made), no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee is or will be required for the execution and delivery by the Trustee of the Trustee Documents or the authentication and delivery of the Bonds; (v) to the best of such counsel's knowledge, the execution and delivery by the Trustee of the Trustee Documents

and the Bonds, and compliance with the terms thereof will not, in any material respect, conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties, or (except with respect to the lien of the respective Indenture) result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Trustee; and (vi) to the best of such counsel's knowledge, there is no litigation pending or threatened against or affecting the Trustee to restrain or enjoin the Trustee's participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by the Bonds and the Trustee Documents;

(7) An opinion of counsel to the Underwriter, addressed to the Underwriter, in form and substance acceptable to the Underwriter;

(8) A copy of this Purchase Contract duly executed and delivered by the parties thereto;

(9) A copy of the Official Statement, executed on behalf of the Successor Agency by the Executive Director or such other appropriate officer of the Successor Agency;

(10) One (1) certified copy of the Indenture, the Refunding Instructions, the Disclosure Agreement, and all resolutions of the Successor Agency and the Oversight Board relating to the issuance of the Bonds (including without limitation the Resolution and the Oversight Board Resolution);

(11) A letter, dated the date of the Closing and addressed to the Underwriter and the Successor Agency, of Norton Rose Fulbright US LLP ("Disclosure Counsel"), to the effect that based upon its participation in the preparation of the Official Statement and without having undertaken to determine independently the accuracy or completeness of the statements in the Official Statement such Counsel has no reason to believe that, as of the date of Closing, the Official Statement (except for Appendices C, E, F and H to the Official Statement, any information about the book-entry system or DTC, or excluding therefrom financial, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; statements relating to The Depository Trust Company, Cede & Co., and the book-entry system in the Official Statement, as to which no view need be expressed) contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(12) An executed report and certificates of DHA Consulting, LLC (the "Redevelopment Consultant"), in form and substance acceptable to the Underwriter;

(13) Ratings letter from _____ confirming the underlying ratings of "_____" on the Bonds, and the enhanced ratings of "_____" on the Bonds based on the issuance of the municipal bond insurance policies (the "Policies") issued by _____ (the "Bond Insurer");

(14) Documents relating to the Policies, including executed Policies and reserve fund surety policy issued by the Bond Insurer (the "Reserve Policy"), opinions of counsel to the Bond Insurer concerning the validity and enforceability of the Policies and Reserve Policy, and Certificates of the Bond Insurer concerning the description of the Bond Insurer and the Policies in the Official Statement, all in form and substance satisfactory to the Underwriter;

(15) Such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter, Bond Counsel or Disclosure Counsel may reasonably request to evidence compliance by the Successor Agency with this Purchase Contract, legal requirements, and the performance or satisfaction by the Successor Agency at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Successor Agency.

The Successor Agency will furnish the Underwriter with such conformed copies of such opinions, certificates, letters and documents as the Underwriter may reasonably request. If the Successor Agency is unable to satisfy the conditions to the obligations of the Underwriter contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter or the Successor Agency shall have any further obligations hereunder. However, the Underwriter may in its discretion waive one or more of the conditions imposed by this Purchase Contract for the protection of the Underwriter and proceed with the related Closing.

If this Purchase Contract shall be terminated pursuant to this Section, including but not limited to paragraphs (b) and (c), or if the purchase provided for herein is not consummated because any condition to the Underwriter's obligation hereunder is not satisfied or because of any refusal, inability or failure on the part of the Successor Agency to comply with any of the terms or to fulfill any of the conditions of this Purchase Contract, or if for any reason the Successor Agency shall be unable to perform all of their respective obligations under this Purchase Contract, the Successor Agency shall not be liable to the Underwriter for damages on account of loss of anticipated profits arising out of the transactions covered by this Purchase Contract.

8. Expenses.

The Underwriter shall be under no obligation to pay, and the Successor Agency shall pay from its available funds or from the proceeds of the Bonds, certain expenses set forth in this

Section, including but not limited to: (i) all expenses in connection with the preparation, distribution and delivery of the Preliminary Official Statement, the Official Statement and any amendment or supplement thereto, (ii) all expenses in connection with the printing, issuance and delivery of the Bonds, (iii) the fees and disbursements of Bond Counsel and Disclosure Counsel in connection with the Bonds, (iv) the fees and disbursements of counsel to the Successor Agency in connection with the Bonds, (v) the disbursements of the Successor Agency in connection with the issuance of the Bonds, (vi) the fees and disbursements of the Trustee, (vii) rating agency fees, (viii) fees of the Financial Advisor and Redevelopment Consultant, and (ix) bond insurance and surety premiums, if any.

The Underwriter shall pay (i) fees, if any, payable to the California Debt and Investment Advisory Commission in connection with the issuance of the Bonds; (ii) the cost of preparation of the Blue Sky and Legal Investment Memoranda and all Blue Sky filing fees in connection with the public offering of the Bonds; (iii) all advertising expenses in connection with the public offering of the Bonds; (iv) fees of Underwriter's Counsel; (v) fees of BLX Group LLC in connection with its continuing disclosure compliance report; and (vi) all other expenses incurred by it in connection with its public offering and distribution of the Bonds.

9. Notice. Any notice or other communication to be given to the Successor Agency under this Purchase Contract may be given by delivering the same in writing at the address set forth above. Any such notice or communication to be given to the Underwriter may be given by delivering the same in writing to:

Hilltop Securities Inc.
2533 So Coast Hwy 101, Suite 250
Cardiff, CA 92007
Attn: Mike Cavanaugh, Managing Director

10. Governing Law. This Purchase Contract shall be governed by the laws of the State of California. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

11. Parties in Interest. This Purchase Contract is made solely for the benefit of the signatories hereto (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof except as provided in Section 11 hereof. All representations in this Purchase Contract shall remain operative and in full force and effect, regardless of (a) delivery of and payment for any of the Bonds and (b) any termination of this Purchase Contract.

Respectfully submitted,

HILLTOP SECURITIES INC.

By: _____
Managing Director

Accepted as of the date first stated above:

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE

By _____
Chief Financial Officer

APPENDIX A

**\$[2016A Par Amount]
SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE
2016 Tax Allocation Refunding Bonds,
Series A and Taxable Series B
(Merged Redevelopment Project Area)**

Series 2016A Bonds

Maturity Date	Principal Amount	Interest Rate	Yield	Price
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c Priced to par call on _____
* Insured

**\$[2016B Par Amount]
SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF WATSONVILLE
2016 Tax Allocation Refunding Bonds,
Series A and Taxable Series B**

Series 2016B Serial Bonds

Maturity Date	Principal Amount	Interest Rate	Yield	Price
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c Priced to par call on _____
* Insured