NEW ISSUE
BANK QUALIFIED
BOOK ENTRY ONLY

RATINGS: S&P: "A-"

See "RATINGS" herein

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and, assuming compliance with the tax covenants referred to herein, interest on the Bonds (as defined herein) is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes and is not an item of preference under section 57(a) of the Code for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.

$13,120,000
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
2009 Tax Allocation Bonds, Series A

Dated: Date of Delivery **Due:** September 1, as shown on inside cover

The captioned Bonds will be issued by the Redevelopment Agency of the City of Merced (the "Agency") under an Indenture of Trust, dated as of December 1, 2001 (the "2001 Bonds Indenture"), by and between the Agency and U.S. Bank Trust National Association, as predecessor trustee, as supplemented and amended by the First Supplement to Indenture of Trust, dated as of May 1, 2009 (the "First Supplement"), by and between the Agency and U.S. Bank National Association, as trustee for the Bonds (the "Trustee") (the 2001 Bonds Indenture, as so supplemented and amended, is referred to herein as the "Indenture"). The Bonds are payable from and secured by certain tax increment revenues generally defined as the taxes eligible for allocation to the Agency pursuant to the Law in connection with the Agency's Merced Gateways Redevelopment Project (the "Gateways Project Area") as provided for in the Redevelopment Plan (as such terms are defined herein) and certain funds and accounts held under the Indenture.

Proceeds of the Bonds will be used to (i) fund certain redevelopment activities of benefit to the Gateways Project Area, (ii) finance redevelopment housing activities of the Agency (iii) fund an additional deposit to the debt service reserve fund for the Bonds and the 2001 Bonds (herein defined) and (iv) pay costs incurred in connection with the issuance, sale, and delivery of the Bonds.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchasers of the Bonds may be made in book-entry form only, in denominations of $5,000 maturity amount each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of and interest on the Bonds will be paid directly to DTC by the Trustee. Interest on the Bonds is payable on September 1, 2009 and semiannually thereafter on each March 1 and September 1. Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein.

The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity. See "THE BONDS – Redemption".

The Bonds are payable from and secured by the Tax Revenues (herein defined) on parity with the 2001 Bonds as described herein.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain matters will be passed on for the Agency by Gregory G. Diaz, City Attorney of the City of Merced and Agency General Counsel, and by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about May 28, 2009.

PiperJaffray®

Dated: May 19, 2009

MATURITY SCHEDULE

Base CUSIP[†]: 587625

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2010	$ 170,000	3.000%	3.180%	CS1
2011	175,000	3.500	3.670	CT9
2012	180,000	3.750	3.970	CU6
2013	185,000	4.000	4.200	CV4
2014	200,000	4.375	4.570	CW2
2015	210,000	4.500	4.790	CX0
2021	275,000	5.600	5.790	DD3
2022	290,000	5.625	5.880	DE1
2023	300,000	5.750	5.970	DF8
2024	325,000	5.875	6.050	DG6

$1,190,000 5.250% Term Bonds Maturing September 1, 2020; Yield: 5.350%; CUSIP[†]: DC5

$1,915,000 6.250% Term Bonds Maturing September 1, 2029; Yield: 6.440%; CUSIP[†]: DM3

$7,705,000 6.500% Term Bonds Maturing September 1, 2039; Yield: 6.720%; CUSIP[†]: DP6

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

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

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Agency to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Agency or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exception from the registration requirements contained in such act. The Bonds have not been registered or qualified under the securities laws of any state.

REDEVELOPMENT AGENCY OF THE CITY OF MERCED

AGENCY/CITY COUNCIL MEMBERS

Ellie Wooten, Chair/Mayor
John Carlisle, Vice-Chair/Mayor Pro Tempore
Michele Gabriault-Acosta, Agency Member/ Councilmember
Noah Lor, Agency Member/Councilmember
Joe Cortez, Agency Member/Councilmember
James Sanders, Agency Member/Councilmember
William Spriggs, Agency Member/Councilmember

AGENCY AND CITY STAFF

John M. Bramble, City Manager/Executive Director
William Cahill, Assistant City Manager/Assistant Executive Director
Gregory G. Diaz, Agency General Counsel/City Attorney
Bradley R. Grant, Agency Treasurer/City Finance Officer

SPECIAL SERVICES

Trustee
U.S. Bank National Association
San Francisco, California

Underwriter
Piper Jaffray & Co.
San Francisco, California

Bond Counsel
Fulbright & Jaworski L.L.P.
Los Angeles, California

Disclosure Counsel
Jones Hall, A Professional Law Corporation
San Francisco, California

Financial Advisor
Fieldman, Rolapp & Associates
Irvine, California

Fiscal Consultant
HdL Coren & Cone
Diamond Bar, California

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

$13,120,000
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
2009 Tax Allocation Bonds, Series A

INTRODUCTION

This introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to the matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement. Definitions of certain terms used in this Official Statement are set forth in “APPENDIX A – Summary of Certain Provisions of the Indenture.”

General

This Official Statement, including the cover page and appendices hereto, is provided to furnish information in connection with the sale by the Redevelopment Agency of the City of Merced (the “**Agency**”) of $13,120,000 aggregate initial principal amount of its Merced Gateways Redevelopment Project, 2009 Tax Allocation Bonds, Series A (the “**Bonds**”).

The Agency is a redevelopment agency existing under the California Community Redevelopment Law (codified in Part 1 of Division 24 of the California Health and Safety Code) (the “**Law**”). The Bonds are being issued pursuant to the Constitution and the laws of the State of California (the “**State**”), including the Law, a resolution of the Agency adopted on November 17, 2008, and an Indenture of Trust, dated as of December 1, 2001 (the “**2001 Bonds Indenture**”), by and between the Agency and U.S. Bank Trust National Association, as predecessor trustee, as supplemented and amended by a First Supplement to Indenture of Trust, dated as of May 1, 2009 (the “**First Supplement**”) by and between the Agency and U.S. Bank National Association, as trustee (the “**Trustee**”) (the 2001 Bonds Indenture as so supplemented being herein referred to as the “**Indenture”**).

The Bonds are payable from and secured by Tax Revenues (as defined herein). The Indenture permits, upon satisfaction of certain conditions, the issuance of additional indebtedness (“**Parity Debt**”) payable from the Tax Revenues and secured by a lien on and security interest in the Tax Revenues equal to the lien and security interest securing the Bonds. The Bonds are being issued as Parity Debt on a parity with the Agency’s outstanding Redevelopment Agency of the City of Merced, Merced Gateways Redevelopment Project, 2001 Tax Allocation Bonds, Series A (the “**2001 Bonds**”), originally issued in the principal amount of $2,400,000 and currently outstanding in the principal amount of $2,145,000. See “DESCRIPTION OF THE BONDS – Parity Debt and Subordinate Debt”

Proceeds of the Bonds will be used to (i) fund certain additional redevelopment activities of benefit to the Gateways Project Area, (ii) finance redevelopment housing activities with respect to the Agency, (iii) fund an additional deposit into the debt service reserve fund for the Bonds to cause the amount on deposit to equal the maximum annual debt service on the Bonds and the 2001 Bonds (being the amount of the Reserve Requirement) and (iv) pay costs incurred in connection with the issuance, sale and delivery of the Bonds.

The City, the Agency, and the Redevelopment Plan

The City of Merced, California (the "**City**") is located in the eastern portion of Merced County (the "**County**"). The City was incorporated in 1889 and operates as a charter city. It maintains a council-manager form of government with the Mayor elected at-large for a two year term and Council Members elected at-large for four-year terms. The City Manager is appointed by the City Council to manage the City's staff and generally implement policies established by the City Council. See "APPENDIX C - GENERAL INFORMATION RELATING TO THE CITY OF MERCED" for a more complete description of the City and the surrounding region.

The Agency was established pursuant to the Law and was activated by the City Council in 1957 by a resolution of the City Council. Subsequently, the City Council declared itself to be the governing board of the Agency. The Agency is a legal entity separate from the City.

The Gateways Project Area consists of the original Gateways Redevelopment Project (the "**Original Area**") and two areas that were subsequently annexed to the Original Area (herein referred to as "**Annex 1**" and "**Annex 2**"). The Gateways Project Area covers approximately 3,107.9 acres, with land uses consisting primarily of residential uses, with commercial and some industrial land use. The assessed value, including secured and unsecured value, of the Original Area in the Base Year, was $188 million compared to its 2008-09 secured and unsecured assessed value (including utilities) of $623 million (which now includes the Original Area, Annex 1 and Annex 2). The Gateways Project Area is one of the Agency's two active project areas. See "THE GATEWAYS PROJECT AREA" for additional information on land use and property ownership within the Gateways Project Area.

The Agency's audited financial statements for the fiscal year ended June 30, 2008, are included in "APPENDIX B" and should be read in their entirety. The Agency's financial statements were audited by the independent accounting firm of Caporicci & Larson, Oakland, California (the "**Auditor**"). No post-audit review has been requested nor will be performed. The Agency's audited financial statements for the year ended June 30, 2008, and prior years are on file for public inspection with the Secretary of the Agency. Copies can also be obtained from Bradley Grant, City Finance Officer, at 678 W. 18th Street, Merced, CA 95340.

Tax Allocation Financing

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

Security for the Bonds

The Bonds are special obligations of the Agency payable solely from "Tax Revenues" (see "SECURITY FOR THE BONDS - Allocation of Taxes") and other funds and accounts pledged pursuant to the Indenture. The Bonds will be secured by the Tax Revenues on a parity with the 2001 Bonds and any additional Parity Debt.

For additional information regarding security for the Bonds, see "SECURITY FOR THE BONDS" herein. The Agency's receipt of Tax Revenues is subject to certain risks and limitations. See "BONDOWNERS' RISKS" and "LIMITATIONS ON TAX REVENUES" herein.

Professionals Involved in the Offering

U.S. Bank National Association, San Francisco, California, will act as Trustee with respect to the Bonds.

Fieldman, Rolapp & Associates, Irvine, California, has served as Financial Advisor to the Agency in connection with the Bonds and has assisted the Agency in structuring the Bonds.

All proceedings in connection with the issuance of the Bonds are subject to the approval of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain matters will be passed on for the Agency by Jones Hall, A Professional Law Corporation, Disclosure Counsel to the Agency. The fees and expenses of Bond Counsel, Disclosure Counsel and the Financial Advisor are contingent upon the sale and delivery of the Bonds.

Summaries of Documents

There follow in this Official Statement, descriptions of the Bonds, the Indenture, the 2001 Bonds, the Agency, the City, the Gateways Project Area, the Law, and various agreements. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors' rights generally. Capitalized terms not defined herein shall have the meanings set forth in the Indenture. Copies of the Indenture are available for inspection during business hours at the corporate trust office of the Trustee in San Francisco, California.

This Official Statement speaks only as of its date, as set forth on the cover hereof, and the information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Agency or the City or the Gateways Project Area since the date hereof.

Continuing Disclosure

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "**Rule**"), the Agency has undertaken for the benefit of holders of the Bonds to provide certain financial information and operating data relating to the Agency by not later than nine (9) months following the end of the Agency's fiscal year (which currently would be March 31 each year based upon the June 30 end of the Agency's fiscal year), commencing March 31, 2010 with the report for the 2008-09 fiscal year (the "**Annual Information**"), and to provide notices of the occurrence of certain enumerated events, if deemed by the Agency to be material. The Annual Information will be filed by the Agency or on behalf of the Agency by Willdan Financial Services, as Dissemination Agent, with the Municipal Securities Rulemaking Board. Notices of material events will be filed by or on behalf of the Agency with the Municipal Securities Rulemaking Board. The nature of the information to be provided in the Annual Information and the notices of material events is set forth under the caption "APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT." The Agency has complied in all material respects with its prior continuing disclosure undertakings pursuant to the Rule.

THE FINANCING PLAN

The Project

Proceeds from the sale of the Bonds will be used to (i) fund additional redevelopment activities of benefit to the Gateways Project Area, (ii) finance redevelopment housing activities of the Agency, (iii) fund an additional required deposit into the debt service reserve fund for the Bonds and the 2001 Bonds and (iv) pay costs incurred in connection with the issuance, sale, and delivery of the Bonds. The redevelopment activities being funded with the Bond proceeds consist of land acquisitions, grant assistance, improvements with respect to low and moderate income housing and public improvements of benefit to the Gateways Project Area, including right-of-way acquisition, street widening, street resurfacing, signalization, beautification, curbs, gutters, sidewalks, drainage and alley improvements (the "**Project**"). The Project also includes land acquisition and grant assistance for low and moderate income housing projects.

Specific projects identified by the Agency include:

- North Highway 59 Improvements: Acquire right-of-way, widen Highway 59 segments from 16th Street to Burlington Northern Santa Fe Railroad; signalization;
- Parsons Avenue Improvements: Acquire right-of-way, complete segments from Childs Avenue to Stretch Road;
- G Street Improvements: Acquire right-of-way, construction of railroad undercrossing at Burlington North Santa Fe Railroad ($9 million in State Transportation matching funds have been approved);
- East 16th Street Improvements;
- South King Way/Highway 59 beautification and improvements;
- Commercial Development South 59: Land acquisition and grant assistance;
- Midtown Public Improvements: 18th Street G to N, curb/gutter/sidewalk selected areas, traffic calming;
- South Merced Alley Improvements;
- Willowbrook Cooper Ave Housing Project: property, public improvements, grant;
- Midtown Housing, purchases and improvements; and
- South Merced Housing acquisitions.

The actual projects financed with proceeds of the Bonds may be different than those currently contemplated by the Agency. None of the projects financed with proceeds of the Bonds represent security for the Bonds.

Sources and Uses of Funds

The following table shows the estimated sources and uses of the proceeds from the sale of the Bonds:

SOURCES AND USES OF FUNDS

Sources:	
Principal Amount of the Bonds	$13,120,000.00
Less: Underwriter's Discount	(180,400.00)
Less: Net Original Issue Discount	(302,455.40)
Total Sources	$12,637,144.60
Uses:	
2009 Account of the Redevelopment Fund	$9,490,133.83
2009 Account of the Low and Moderate Income Housing Fund	2,003,240.20
Reserve Account[1]	943,770.57
2009 Costs of Issuance Fund[2]	200,000.00
Total Uses	$12,637,144.60

(1) An amount sufficient to cause the amount on deposit in the Reserve Account to be not less than the Reserve Requirement.
(2) Costs of Issuance include Bond Counsel, Disclosure Counsel, Financial Advisor and Trustee fees and expenses, rating agency fees and other costs related to the issuance of the Bonds.

Annual Debt Service

The following table shows the scheduled annual debt service for the Bonds and the 2001 Bonds.

TABLE 1
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
ANNUAL DEBT SERVICE SCHEDULE

Bond Year Ending September 1	Total 2001 Bonds Debt Service	2009 Bonds Principal	2009 Bonds Interest	Total 2009 Bonds Debt Service	Aggregate 2001 Bonds and 2009 Bonds Debt Service
2009	$165,347.50		$ 205,276.51		$ 370,624.01
2010	168,097.50	$ 170,000	794,618.76	964,618.76	1,132,716.26
2011	165,597.50	175,000	789,518.76	964,518.76	1,130,116.26
2012	168,097.50	180,000	783,393.76	963,393.76	1,131,491.26
2013	165,292.50	185,000	776,643.76	961,643.76	1,126,936.26
2014	167,432.50	200,000	769,243.76	969,243.76	1,136,676.26
2015	169,252.50	210,000	760,493.76	970,493.76	1,139,746.26
2016	170,742.50	210,000	751,043.76	961,043.76	1,131,786.26
2017	171,892.50	230,000	740,018.76	970,018.76	1,141,911.26
2018	172,692.50	235,000	727,943.76	962,943.76	1,135,636.26
2019	168,212.50	255,000	715,606.26	970,606.26	1,138,818.76
2020	168,652.50	260,000	702,218.76	962,218.76	1,130,871.26
2021	168,807.50	275,000	688,568.76	963,568.76	1,132,376.26
2022	168,677.50	290,000	673,168.76	963,168.76	1,131,846.26
2023	168,262.50	300,000	656,856.26	956,856.26	1,125,118.76
2024	172,562.50	325,000	639,606.26	964,606.26	1,137,168.76
2025	171,292.50	340,000	620,512.50	960,512.50	1,131,805.00
2026	174,737.50	360,000	599,262.50	959,262.50	1,134,000.00
2027	172,550.00	380,000	576,762.50	956,762.50	1,129,312.50
2028	175,075.00	405,000	553,012.50	958,012.50	1,133,087.50
2029	172,025.00	430,000	527,700.00	957,700.00	1,129,725.00
2030	178,687.50	455,000	500,825.00	955,825.00	1,134,512.50
2031	174,487.50	485,000	471,250.00	956,250.00	1,130,737.50
2032		675,000	439,725.00	1,114,725.00	1,114,725.00
2033		715,000	395,850.00	1,110,850.00	1,110,850.00
2034		760,000	349,375.00	1,109,375.00	1,109,375.00
2035		805,000	299,975.00	1,104,975.00	1,104,975.00
2036		865,000	247,650.00	1,112,650.00	1,112,650.00
2037		915,000	191,425.00	1,106,425.00	1,106,425.00
2038		980,000	131,950.00	1,111,950.00	1,111,950.00
2039		1,050,000	68,250.00	1,118,250.00	1,118,250.00
Total	$3,918,475.00	$13,120,000	$17,147,745.41	$30,267,745.41	$34,186,220.41

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the Constitution and laws of the State and under authority granted to the Agency by the Law constituting Part 1 of Division 24 of the California Heath and Safety Code, as amended, and a resolution of the Agency adopted on November 17, 2009, and the Indenture.

The Bonds are being issued for sale to the City of Merced Public Financing Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the "JPA Law"). The Bonds purchased by the Authority will be immediately resold to Piper Jaffray & Co., as underwriter (the "Underwriter").

The Bonds are special obligations of the Agency and as such are not a debt of the City, the State, or any of their political subdivisions, and neither the City, the State, nor any of their political subdivisions is liable for the payment thereof. In no event shall the Bonds be payable out of any funds or properties other than those of the Agency as set forth in the Indenture. The Bonds do not constitute an indebtedness in contravention of any constitutional or statutory debt limit or restriction. For a discussion of some of the risks associated with the purchase of the Bonds, see "BONDOWNERS' RISKS" herein. The Agency has no taxing powers.

DESCRIPTION OF THE BONDS

General

Interest on the Bonds is payable on September 1, 2009 and each March 1 and September 1 thereafter (an "**Interest Payment Date**") to maturity or redemption thereof to the person whose name appears on the Registration Books as the Owner thereof as of the close of business on the fifteenth (15th) calendar day of the month preceding such Interest Payment Date (a "**Record Date**"), such interest to be paid by check of the Trustee mailed by first class mail on the Interest Payment Date to the Owner at the address of such Owner as its appears on the Registration Books as of the preceding Record Date or, upon written request filed with the Trustee prior to the Record Date by an Owner of at least $1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account in the United States designated by such Owner in such written request.

Each Bond bears 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 will bear interest from such Interest Payment Date; or (b) it is authenticated on or before August 15, 2009, in which event it will bear interest from the date of initial delivery of the Bonds; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Payment of the Bonds

The principal of and redemption premium, if any, on the Bonds shall be payable in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof, at maturity or prior redemption thereof, at the principal corporate trust office of the Trustee.

The Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (the "**DTC**"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "APPENDIX G - BOOK-ENTRY ONLY SYSTEM" herein.

Redemption

Optional Redemption. The Bonds are subject to redemption prior to maturity, at the option of the Agency, in whole or in part among maturities on such basis as designated by the Agency and by lot within a maturity, from any available source of funds, on September 1, 2019, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 2020, September 1, 2029 and September 1, 2039 are subject to redemption prior to their stated maturity date, without premium, in part by lot, from mandatory sinking fund payments on each September 1, in the principal amounts as set forth in the following schedules:

$1,190,000 Term Bonds Due September 1, 2020

Payment Date (September 1)	Payment Amount
2016	$210,000
2017	230,000
2018	235,000
2019	255,000
2020 (Maturity)	260,000

$1,915,000 Term Bonds Due September 1, 2029

Payment Date (September 1)	Payment Amount
2025	340,000
2026	360,000
2027	380,000
2028	405,000
2029 (Maturity)	430,000

$7,705,000 Term Bonds Due September 1, 2039

Payment Date (September 1)	Payment Amount
2030	455,000
2031	485,000
2032	675,000
2033	715,000
2034	760,000
2035	805,000
2036	865,000
2037	915,000
2038	980,000
2039 (Maturity)	1,050,000

If some but not all of the Bonds have been redeemed pursuant to the optional redemption provisions described above, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of the Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the Agency, which shall notify the Trustee in writing of such determination.

Transfer and Exchange

Any Bond may, in accordance with its terms, be transferred, upon the registration books of the Trustee, upon surrender of such Bond to the Trustee at its 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 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.

Parity Debt and Subordinate Debt

Issuance of Parity Debt. In addition to the Bonds and the 2001 Bonds, the Agency may issue or incur Parity Debt in such principal amount as shall be determined by the Agency, pursuant to a Supplemental Indenture entered into by the Agency. The Agency may issue or incur such Parity Debt subject to the specific conditions set forth in the Indenture, including the following:

(a) The Agency shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures.

(b) The Tax Revenues received in the immediately preceding Bond Year based on the most recent assessed valuation of taxable property in the Project Area (as shown in the records of Merced County), shall be at least equal to one hundred forty-five percent (145%) of Maximum Annual Debt Service on all Bonds which will be Outstanding immediately following the issuance of such Parity Debt.

(c) The Supplemental Indenture providing for the issuance of such Parity Debt shall provide that interest thereon shall not be payable on any dates other than March 1 and

September 1, and principal thereof shall be payable on September 1 in any year in which principal is payable.

(d) The Supplemental Indenture providing for the issuance of such Parity Debt shall provide for the deposit into the Reserve Account of an amount required to cause the balance therein to equal the full amount of the Reserve Requirement (as described herein, see "SECURITY FOR THE BONDS – Reserve Account").

(e) The Agency shall deliver to the Trustee a Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt have been satisfied.

Issuance of Subordinate Debt. The Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency.

Book-Entry Only System

The Depository Trust Company ("**DTC**") will act as securities depository for the Bonds. The ownership of each such separate single fully registered Bond shall be registered in the bond register in the name of Cede & Co., as nominee of DTC. For further information regarding DTC, please refer to "APPENDIX G" hereto.

SECURITY FOR THE BONDS

Tax Allocation Financing

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

Allocation of Taxes

As provided in the Redevelopment Plan, and pursuant to Article 6 of Chapter 6 of the Law and Section 16 of Article XVI of the Constitution of the State, taxes levied upon taxable property in the Gateways Project Area each year by or for the benefit of the State, any city, county, city and county, district or other public corporation (the "**taxing agencies**") for fiscal years beginning after the effective date of Ordinance No. 1939, adopted by the City Council of the City on July 15, 1996, approving the Redevelopment Plan for the Gateways Project Area, shall be divided as follows:

(a) The portion equal to the amount of taxes produced by the then current tax rate, applied to the assessed valuation of such property in the Gateways Project Area as shown on the applicable base year assessment roll as last equalized prior to the establishment of the

Gateways Project Area shall be, when collected, paid into the funds of those respective taxing agencies;

(b) Except for taxes which are attributable to a tax levy by a taxing agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989, which shall be allocated to and when collected shall be paid to the respective taxing agency, that portion of levied taxes each year in excess of such amount, including (to the extent permitted by law) all payments and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, will be allocated to, and when collected, will be paid to the Agency to pay the principal of and interest on loans to, money advanced to, or indebtedness incurred by the Agency to finance redevelopment projects.

Revenues generated as set forth above and allocated to the Agency are generally referred to as tax increment revenues. Tax Revenues (as defined below) that secure the Bonds and the 2001 Bonds and any additional Parity Debt are a portion of such tax increment revenues. Tax Revenues are generally those tax increment revenues received by the Agency within limitations set forth in the Redevelopment Plan ("**Plan Limitations**," as described herein) and remaining after certain deductions for payments required by law to be made to the Agency's Low and Moderate Income Housing Fund and payments to taxing entities pursuant to Health and Safety Code Section 33607.5 or 33607.7 and referred to herein as "**Tax Sharing Statutes**" (as described herein under "THE GATEWAYS PROJECT AREA – Tax Sharing Statutes").

The term "Plan Limitations" means the limitations contained or incorporated in the Redevelopment Plan on (a) the aggregate principal amount of bonded indebtedness payable from tax increment revenues which may be outstanding at any time, (b) the duration of the Redevelopment Plan, (c) the period of time for establishing or incurring indebtedness payable from tax increment revenues and (d) the period of time for receiving tax increment revenues and repaying indebtedness, in each case established pursuant to Section 33333.2 of the Law. See "APPENDIX D - Fiscal Consultant's Report – B. Redevelopment Plan Limits."

Pursuant to the provisions of the Indenture, the Agency has pledged that portion of the tax increment revenues that constitute the Tax Revenues. The Bonds, the 2001 Bonds and any other Parity Debt are secured by a first and prior lien on and security interest in Tax Revenues and by a pledge of all of the moneys in the Special Fund and the Debt Service Fund and the accounts therein established under the Indenture, including all amounts derived from the investment of such moneys, subject to application in accordance with the Indenture. Except for the Tax Revenues and such moneys, no funds or properties of the Agency are pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium, if any, on the Bonds.

Tax Revenues are defined in the Indenture to include all tax increment revenues allocated and paid to the Agency in the Gateways Project Area, including that portion of such taxes otherwise required by Section 33334.3 of the Law to be deposited in the Low and Moderate Income Housing Fund, but only to the extent necessary to repay that portion of the Bonds, the 2001 Bonds and that portion of any Parity Debt (including applicable reserves and financing costs) issued to finance or refinance amounts deposited in the Low and Moderate Income Housing Fund for use pursuant to Section 33334.2 of the Law to increase or improve the supply of low and moderate income housing within or of benefit to the Gateways Project Area; but excluding all other amounts of such taxes (if any) (i) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to the Law for increasing and improving the supply of low and moderate income housing, (ii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Tax Code, and (iii) amounts payable by the Agency under the Tax Sharing Statutes, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds or to the payment of Parity Debt, as applicable.

The portion of Tax Revenues that may be used to repay that portion of the Bonds, the 2001 Bonds and that portion of any Parity Debt issued to finance low and moderate income housing within or of benefit to the Gateways Project Area constitute "**Housing Tax Revenues**".

Any Tax Revenues received following deposit in the Special Fund of an amount equal to the aggregate amount required to be transferred to the Interest Account, the Principal Account, the Sinking Account and the Reserve Account during such Bond Year pursuant to the Indenture will be released from the pledge and lien under the Indenture and may be used for any lawful purpose of the Agency. See "APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" contained herein.

In consideration of the acceptance of the Bonds by those who hold the same from time to time, the Indenture is deemed to be and constitutes a contract between the Agency and the Owners from time to time of the Bonds and the covenants and agreements therein set forth to be performed on behalf of the Agency will 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 other Bonds, or of the Bonds over any other Parity Debt, 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.

Housing Tax Revenues

The Law requires redevelopment agencies to annually set aside not less than 20 percent of all tax increment revenues into a Low and Moderate Income Housing Fund to be expended for authorized low and moderate income housing. Amounts on deposit in the Low and Moderate Income Housing Fund may also be applied to pay debt service on bonds, loans or advances of redevelopment agencies to provide financing for such low and moderate income housing purposes. Approximately 17.4% of the proceeds of the Bonds are allocable to the Low and Moderate Income Housing Fund and, therefore, 17.4% of the debt service on the Bonds is payable from Housing Tax Revenues. In addition, approximately 11.5% of the proceeds of the 2001 Bonds were deposited in the Low and Moderate Income Housing Fund and, therefore, 11.5% of the debt service on the 2001 Bonds is payable from Housing Tax Revenues. See Table 8 for a calculation of the amounts so payable from Housing Tax Revenues. Under the Law, the amount of tax increment revenues required to be deposited in the Low and Moderate Income Housing Fund could be reduced if the redevelopment agency finds that (1) no need exists in the community to improve or increase the supply of low and moderate income housing or (2) that some stated percentage less than 20 percent of the tax increment is sufficient to meet the housing need. The Agency has no expectation of making such findings.

Limited Liability

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND AS SUCH ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY) AND NEITHER THE CITY, THE STATE, NOR

ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY) IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT SHALL THE BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AGENCY SET FORTH IN THE INDENTURE.

Any future decrease in the taxable valuation of property in the Gateways Project Area or in the applicable tax rates relating thereto will reduce the Tax Revenues allocated to the Agency from the Gateways Project Area and correspondingly will have an adverse impact on the ability of the Agency to pay the principal of and interest on the Bonds. Except for the Tax Revenues and the amounts held in trust under the Indenture, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the Bonds.

The Agency has no power to levy and collect property taxes, and any property tax limitation, legislative measures, voter initiative or provisions or additional sources of income to taxing agencies having the effect of reducing the property tax could reduce the amount of Tax Revenues that would otherwise be available to pay debt service on the Bonds. Likewise, broadened property tax exemptions could have a similar effect. See “BONDOWNERS' RISKS” herein.

Reserve Account

On the Closing Date, the Trustee shall deposit in the existing Reserve Account an amount which when taken together with moneys currently on deposit in the Reserve Account equals the Reserve Account Requirement upon delivery of the Bonds. Moneys held in the Reserve Account are to be used by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account or the Sinking Account in such order of priority, in the event of any deficiency at any time in any of such accounts, or for the purpose of paying the interest on, the principal of or the redemption premiums, if any, on the Bonds, the 2001 Bonds and any additional Parity Debt in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all Bonds then Outstanding, except that for so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement shall be transferred from the Reserve Account to the Interest Account.

The indenture defines the term “**Reserve Requirement**” to mean, as of the date of calculation, the lesser of the amount of Maximum Annual Debt Service or the amount then permitted by the Internal Revenue Code of 1986 to be deposited in the Reserve Account.

THE REDEVELOPMENT AGENCY OF THE CITY OF MERCED

Agency Members

The Agency was established pursuant to the Law and was activated by the City Council in 1957. Subsequently, the City Council declared itself to be the governing board of the Agency. The Agency is charged with the authority and responsibility of redeveloping and upgrading blighted areas of the City. The Agency is a separate public body and exercises governmental functions in planning and carrying out redevelopment projects. The Agency can build public improvements, facilitate the development of on and off-site improvements for private development projects, acquire and resell property, and provide services of special benefit to the Gateways Project Area.

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

Member	Term Expires
Ellie Wooten, Chair/Mayor	November 2009
John Carlisle, Vice Chair/Mayor Pro Tempore	November 2011
Michele Gabriault-Acosta, Agency Member/Council Member	November 2011
Noah Lor, Agency Member/Council Member	November 2011
Joseph Cortez, Agency Member/Council Member	November 2009
James Sanders, Agency Member/Council Member	November 2009
William Spriggs, Agency Member/Council Member	November 2009

Agency Administration

The Agency each year adopts a budget. A portion of salaries and benefits of certain City staff members are budgeted and paid for by the Agency. Such payments by the Agency to the City are subordinate to the payment of debt service on the Bonds, the 2001 Bonds and any additional Parity Debt.

The Law requires redevelopment agencies to have an independent financial audit conducted each year. The financial audit is also required to include an opinion of the Agency's compliance with laws, regulations and administrative requirements governing activities of the Agency. The firm of Caporicci & Larson, Oakland, California, audited the financial statement for the Agency for the fiscal year ended June 30, 2008. The firm's examination was made in accordance with generally accepted auditing standards. The Agency follows fund accounting principles reflecting the accrual basis of accounting in which revenue is recognized when earned or otherwise becomes available, and expenditures are recognized when incurred. The firm reported after their examination that they noted no instances of noncompliance for the fiscal year ended June 30, 2008. See "APPENDIX B - Audited Financial Statements of the Agency for Fiscal Year Ended June 30, 2008."

Agency Powers

All powers of the Agency are vested in its members. Pursuant to the Law, the Agency is a separate public body and exercises governmental functions, including planning and implementing redevelopment projects.

The Agency may exercise the right to issue bonds for authorized purposes and to expend their proceeds, and the right to acquire, sell, rehabilitate, develop, administer or lease property. The Agency may demolish buildings, clear land and cause to be constructed certain improvements, including streets, sidewalks, and utilities, and can further prepare for use as a building site any real property which it owns or administers.

The Agency may, from any funds made available to it for such purposes, pay for all or part of the value of land and the cost of buildings, facilities or other improvements to be publicly owned, provided that such improvements are expressly found to be of benefit to a redevelopment project and cannot be financed by any other reasonable method. The Agency may not construct or develop buildings, with the exception of public buildings and housing, and generally must sell or lease cleared property which it acquires within a redevelopment project for redevelopment in conformity with a particular redevelopment plan, and may further specify a period within which such redevelopment must begin and be completed.

Factors Affecting Redevelopment Agencies Generally

Other features of the Law that bear on redevelopment agencies include general provisions which require public agencies to award contracts for construction only after competitive bidding. The Law provides that construction in excess of a minimum amount undertaken by the Agency shall be done only after competitive bidding. California statutes also provide for offenses punishable as felonies that involve direct or indirect interest of a public official in a contract made by such official in his official capacity. In addition, the Law generally prohibits any Agency or City official or employee who, in the course of his duties, is required to participate in the formulation or approval of plans or policies, from acquiring any interest in property in the Gateways Project Area.

Under a State initiative enacted in 1974, public officials are required to make extensive disclosures regarding their financial interests by filing such disclosures as public records. As of the date of this Official Statement, the members of the City Council and the Agency, and other City and Agency officials have made the required filings. California also has strict laws regarding public meetings (known as the Ralph M. Brown Act) that make all Agency and City meetings open to the public, with certain exceptions not applicable here.

Filing of Statement of Indebtedness

Section 33675 was added to the Law in 1976, providing for the filing not later than the first day of October of each year with the county auditor of a statement of indebtedness certified by the chief fiscal officer of the agency for each redevelopment project that receives tax increment. As described below, the statement of indebtedness controls the amount of tax increment revenue that will be paid to the Agency in each fiscal year.

Each statement of indebtedness is filed on a form prescribed by the State Controller and specifies, among other things: (a) the total amount of principal and interest payable on all loans, advances or indebtedness (including the 2001 Bonds, the Bonds and any Parity Debt) (the "**Debt**"), both over the life of the Debt and for the current fiscal year, and (b) the amount of "available revenue" as of the end of the previous fiscal year. "Available revenue" is calculated by subtracting the total payments on Debt during the previous fiscal year from the total revenues (both tax increment revenue and other revenues) received during the previous fiscal year, plus any carry-forward from the prior fiscal year. Available revenue includes amounts held by the Agency and irrevocably pledged to the payment of Debt.

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

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

The Agency's October 1, 2008 Statement of Indebtedness included outstanding obligations sufficient to collect all of the tax increment currently generated in the Gateways Project Area for Fiscal Year 2008-09. The Agency expects that its future Statement of Indebtedness will also include outstanding obligations sufficient to collect all of the tax increment generated in the Gateways Project Area during the applicable fiscal year.

Regulatory Issues

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

THE GATEWAYS PROJECT AREA

General

General. On July 15, 1996, by the City Council's adoption of Ordinance No. 1939, the Original Area was created. The Original Area encompassed 1,699 acres and consists of several irregular areas. The Original Area is located primarily south of State Highway 99 and north of Childs Avenue. The portions of the Original Area located north of State Highway 99 include several blocks immediately adjacent to the State Highway and between Martin Luther King Way and R Street. Also located north of the State Highway are areas that are south of Yosemite Parkway. One additional area is located at the southeast corner of Yosemite Parkway and Kibby Road.

On July 17, 2000 the City Council adopted Ordinance No. 2043 that amended the Project Area redevelopment plan to add territory ("**Annex 1**"). This first amendment added 46 acres to the Original Area. Annex 1 is located adjacent to the northeast side of the Merced Municipal Airport and south of Grogan Avenue. This area is adjacent to the Original Area boundary.

On July 18, 2005 the City Council adopted Ordinance No. 2201 that further amended the Project Area redevelopment plan to add 1,362.9 acres of additional territory ("**Annex 2**"). Annex 2 consists of ten irregular sub-areas that are located within the downtown area that is north of State Highway 99 between M Street on the west and extending as far east as McKee Road. The subareas also include areas south of State Highway 99 that are generally bounded by Childs Avenue on the north, Gerard Avenue on the south, West Avenue on the west and State Highway 99 on the east. The territory added by this amendment includes 504 parcels located within the County unincorporated area. These parcels were added with the permission of the County Board of Supervisors granted to the City and the Agency pursuant to Ordinance No. 1754 adopted by the County Board of Supervisors on July 19, 2005. The Gateways Project Area now encompasses a total of 3,107.9 acres.

Redevelopment Plan. The Redevelopment Plan was amended twice more by ordinances as discussed above. The Redevelopment Plan is designed to enable the Agency to, among other things, eliminate blighting influences; encourage existing owners, businesses and tenants within the Gateways Project Area to participate in redevelopment activities; to sustain the existing residential, commercial and industrial base of the community; to provide required public improvements so as to encourage new construction by private enterprise; to mitigate development limitations which have and will continue to result in the lack of optimum utilization of the Gateways Project Area; and provide construction and employment opportunities in the development of these facilities.

The Redevelopment Plan allows for commercial, industrial, residential and public uses, as consistent with the general plan of the City. The Redevelopment Plan emphasizes revitalization of residential neighborhoods through housing rehabilitation and construction of new single-family and low-density housing, as well as construction of amenities such as parks. The Redevelopment Plan also encourages commercial development along two predominant linear commercial "strips", Yosemite Park Way and Martin Luther King, Jr. Way. Development of a significant shopping center in the Gateways Project Area is emphasized. Finally, the Redevelopment Plan anticipates encouragement of industrial development in the two industrial parks in the Area: the Airport Industrial Park, which is municipally owned, and the University Industrial Park, which is privately owned.

Other Project Areas. In addition to the Gateways Project Area, the Agency has established two other redevelopment project areas in the City of Merced. The first project area, a six-square block area ("**Project Area No. 1**"), terminated in December 1991 after a 30-year life. The second project area ("**Project Area No. 2**") is effective for 42 years, and terminates in August 2016.

Land Use in the Gateways Project Area

Shown in the table below are land uses in the Gateways Project Area, according to Fiscal Year 2008-09 assessed value. Unsecured and non-unitary values are connected with parcels that are already accounted for in other categories. Of the parcels listed in Table 2, 501 parcels are located outside of the city limits of the City of Merced. These parcels were incorporated into the areas added by Annex 2 with permission of the County and have a net taxable value of $66.9 million for 2008-09.

TABLE 2
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
Land Use by Assessed Value
Fiscal Year 2008-09

Category	No. of Parcels	Net Taxable Value	% of Total
Residential	2,733	$327,529,227	52.50%
Commercial	271	171,278,911	27.46
Industrial	35	31,994,898	5.13
Irrigated	18	12,424,039	1.99
Institutional	40	1,074,968	0.17
Governmental	121	0	0.00
Miscellaneous	18	2,828,986	0.45
Vacant Land	168	18,653,663	2.99
Subtotal	3,404	$565,784,692	90.70
Possessory Interest		1,104,211	0.18
Unsecured		56,935,155	9.16
Subtotal		$58,039,366	9.30
Totals		$623,824,058	100.00%

Source: HdL Coren & Cone.

Redevelopment Plan Limitations

AB 1290. In 1993, the California Legislature made significant changes in the Law by the adoption of AB 1290, Chapter 942, statutes of 1993 ("**AB 1290**"). Among the changes to the Law accomplished by the enactment of AB 1290 was a provision that specified that the effectiveness of a redevelopment plan adopted after 1993 (which is the case for the Redevelopment Plan for the Gateways Project Area) shall expire 30 years from the date of adoption of the Redevelopment Plan. The time limit for establishing indebtedness is 20 years from the date of adoption of the redevelopment plan and the Agency may repay indebtedness for a total of 45 years from the date of the adoption of the redevelopment plan. Any eminent domain proceedings undertaken by the Agency must be initiated within 12 years of the adoption date of the redevelopment plan.

Senate Bill 1045. The California Legislature adopted Senate Bill 1045 requiring the Agency during the Fiscal Year 2003-04 to make a payment for deposit in the Educational Revenue Augmentation Fund ("**ERAF**") and provided that when an agency is required to make such a payment, the City Council may amend the redevelopment plan to extend the time limit of the effectiveness of the redevelopment plan and the time limit to repay indebtedness by one year by adoption of an ordinance. Pursuant to Senate Bill 1045 the Agency has extended the term of redevelopment plan effectiveness of the Gateways Project Area by one year with the adoption of Ordinance No. 2149 on March 15, 2004. This extension extends the terms of the Redevelopment Plan's effectiveness and the period within which the Gateways Project Area may repay indebtedness by one year, namely, until July 14, 2027 and August 4, 2042, respectively.

Senate Bill 1096. After the State's budget for 2004-05 was approved by the legislature and signed by the Governor, Senate Bill 1096 was adopted. Based on SB 1096, redevelopment agencies within the State were required to pay a total of $250 million into ERAF in each of fiscal years 2004-05 and 2005-06. The Agency's portion of the statewide ERAF requirement for 2004-05 was $489,910 and for 2005-06 was $461,910. Under SB 1096, the Gateways Project Area is not eligible for two one-year extensions of the redevelopment plan time limits based on its ERAF payments.

The following table summarizes the limits in the Redevelopment Plan.

TABLE 3
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
Redevelopment Plan Limits

Component Area	Plan Expiration	Last Date to Incur New Debt	Last Date to Repay Debt with Tax Increment	Limit on Tax Increment Allocated to the Agency	Limit on Outstanding Bonded Debt
Original Area	07/15/2027	07/15/2016	07/15/2042		
Annex 1	07/17/2031	07/17/2020	07/17/2046		
Annex 2	07/18/2035	07/18/2025	07/18/2050		
Project Area				$400 million*	$50 million

* Redevelopment plans adopted after January 1, 1994 are not required to contain limitations on the amount of tax increment revenue that may be divided and allocated to the Agency. This limitation of $400 million was included in the text of the redevelopment plan.

Allocation of Taxes

Secured taxes are due in two equal installments. Installments of taxes levied upon secured property become delinquent on December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31.

The County Auditor-Controller is responsible for the aggregation of the taxable values assigned by the Assessor as of the January 1 lien date for property within the boundaries of the Gateways Project Area. This results in the reported total current year Gateways Project Area taxable value and becomes the basis of determining tax increment revenues due to the Agency. Although adjustments to taxable values for property within the Gateways Project Area may occur throughout the fiscal year to reflect escaped assessments, roll corrections, etc., such adjustments are not assumed on the tax increment projection. Current tax payment practices by the County provide for payment to the Agency of tax increment revenues in mid-January and mid-May. A final reconciliation is made after the close of the fiscal year to incorporate all adjustments to previously reported current year taxable values. The difference between the final reconciliation and tax increment revenues previously allocated to the Agency is paid in late July.

Merced County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), which allows each entity levying property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected. Therefore, the Agency's tax increment revenues reflect actual levies rather than the total amount of taxes collected.

Assessed Valuation Information

Assessed Valuations. Taxable values are prepared and reported by the County Auditor-Controller each fiscal year and represent the aggregation of all locally assessed properties, which are part of the Gateways Project Area. The assessments are assigned to Tax Rate Areas (TRA) that are coterminous to the boundaries of the Gateways Project Area.

Historically, growth in Original Area assessed value has primarily occurred within residential and commercial properties. Annex 1 first produced incremental value in fiscal year 2002-03. Annex 2 first produced incremental value in fiscal year 2006-07. See "APPENDIX D - Fiscal Consultant's Report – III. Project Area Assessed Values" for a description of the growth patterns in the three component areas.

In response to the down-turn in real estate values state-wide, the Merced County Assessor recently has been reviewing the values of many of the parcel values within the County. Some properties in the Gateways Project Area have been reduced in value. See "Appeals to Assessed Value" below.

The tables below show the historical assessed values for fiscal years 2004-05 to 2008-09 based upon the County Auditor/Controller's equalized rolls.

TABLE 4
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
Historical Assessed Valuation Growth

Secured	2004-05	2005-06	2006-07[1]	2007-08	2008-09
Land	$ 69,548,083	$ 80,213,440	$ 161,125,817	$ 187,443,223	$194,836,854
Impts	182,611,948	222,823,663	389,751,369	420,463,130	440,944,695
Pers Prop	6,991,805	7,286,237	13,312,594	14,374,491	15,520,137
Exemptions	(19,929,080)	(35,067,463)	(77,947,489)	(79,587,374)	(84,412,783)
Total Secured	239,222,756	275,255,877	486,242,291	542,693,470	566,888,903
Unsecured					
Land	3,312,913	3,382,855	3,334,152	4,870,143	4,539,728
Impts	45,834,266	47,415,823	48,260,482	55,336,542	60,376,354
Pers Prop	28,597,322	24,885,365	33,131,134	29,726,085	38,611,150
Exemptions	(44,108,591)	(43,633,061)	(44,184,751)	(45,069,936)	(46,592,077)
Total Unsecured	33,635,910	32,050,982	40,541,017	44,862,834	56,935,155
GRAND TOTAL	272,858,666	307,306,859	526,783,308	587,556,304	623,824,058
Incremental Value	71,380,494	105,828,687	181,114,298	241,887,294	278,155,048
Percent Change	--	12.62%	n/a [1]	11.54%	6.17%

(1) After 2005-06 the base year value was revised due to the addition of Annex 2.

Source: HdL Coren & Cone.

Largest Taxpayers. The following table lists the ten largest payers of property taxes in the Gateways Project Area for fiscal year 2008-09. Within the Gateways Project Area, the aggregate total taxable value for the ten largest taxpayers is $83,102,335. This amount is 29.9% of the $278,155,048 Gateways Project Area incremental value. The properties owned by the ten largest taxpayers represent 13.32% of the Gateways Project Area's total assessed value of $623,824,058.

The top taxpayer in the Gateways Project Area is the New Werner Holding Company Inc. This company operates as Keller Extrusions of California which has unsecured values of $14,458,210. This company occupies parcels owned by Lyons Investments, another of the top ten taxpayers. Werner Holding Company is a leading manufacturer of ladders and other climbing devices. It has two manufacturing facilities in the United States, including the Merced facility, and one in Juarez, Mexico. The Werner Holding Company is the world's leading manufacturer and distributor of fiberglass, aluminum and wood climbing products.

The second largest taxpayer in the Gateways Project Area is Catholic Healthcare West, the operating entity for Mercy Hospital of Merced. The majority of the hospital's value is exempt from property taxes, however, the medical offices and retail operations within the facility are subject to taxation. These taxable activities are assessed at $11,779,491 in secured value.

Catholic Healthcare West's property represents 1.89% of the Gateways Project Area's total value for 2008-09 and 5.21% of the Gateways Project Area's incremental value.

The following table shows the ten largest taxpayers in the Gateways Project Area.

TABLE 5
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
Largest Fiscal Year 2008-09 Property Taxpayers

Property Owner	Assessed Valued	Number of Parcels	Percent of Total Value	Percent of Incremental Value
New Werner Holding Company	$14,458,210	2	2.32%	5.20%
Catholic Healthcare West	11,779,491	4	1.89	4.23
Wal Mart Stores East LP	9,238,752	2	1.48	3.32
Fornia Hospitality Group LLC	8,271,710	2	1.33	2.97
Playa Merced LLC	7,647,460	3	1.23	2.75
Gagan Ringo Gulai	7,566,386	1	1.21	2.72
Maxs Partnership	7,059,678	2	1.13	2.54
Savemart of Modesto	6,553,680	1	1.05	2.36
Lyons Investment, A Partnership	5,741,318	4	0.92	2.06
CVP Acquisition Corp.	4,785,650	1	0.77	1.72
Total	$83,102,335	22	13.34	29.88%

Source: HdL Coren & Cone.

Tax Rates. The Gateways Project Area consists of a total of 24 Tax Rate Areas ("**TRAs**"). A TRA is a geographic area within which the taxes on all property are levied by a certain set of taxing entities. These taxing entities each receive a prorated share of the general levy and those taxing entities with voter approved over-ride tax rates receive the revenue resulting from that tax rate.

A Constitutional amendment approved in June 1983 allows the levy of over-ride tax rates to repay indebtedness for the acquisition and improvement of real property, upon approval by a two-thirds vote. A subsequent amendment of the Constitution prohibits the allocation to redevelopment agencies of tax revenues derived from over-ride tax rates levied for repayment of indebtedness approved by the voters after December 31, 1988. The over-ride tax rates typically decline each year as a result of (1) increasing property values (which would reduce the over-ride rate that must be levied to meet debt service) and (2) the eventual retirement of debt over time.

Within the various TRAs there are two tax rates levied. After eliminating all override tax rates that received approval by voters after January 1, 1989 there are no override tax rates that are applicable to Agency revenues within the Gateways Project Area. Therefore, the tax rate used in the projections shown on Table 6 is 1% per $100 of incremental value. See "APPENDIX D - Fiscal Consultant's Report – V. Tax Allocation and Disbursement".

Appeals to Assessed Value

Proposition 8 Appeals. Most of the appeals that might be filed in the Gateways Project Area would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property shall be the lesser of its base year value annually adjusted by the inflation factor under Article XIIIA of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. 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 XIIIA. The State Board of Equalization has approved this reassessment formula and such formula has been used by county assessors statewide. The reassessment formula was approved by the California Court of Appeal, Fourth District, in the recent case of County of Orange et al. v Bezaire, petition for review to the California Supreme Court denied.

Within the assessment rolls for 2007-08, there were a number of properties in the Gateways Project Area that had already been reduced in value under Proposition 8. The assessment rolls for 2008-09 include a greater number of such properties. Within the Gateways Project Area, 512 parcels have had an aggregate downward adjustment of $24 million for fiscal year 2007-08 and 2008-09. These parcels that were reduced in value were all residential properties. See "APPENDIX D - Fiscal Consultant's Report – III. Project Area Assessed Values" for a description of the Proposition 8 reductions in the Gateways Project Area.

Base Year Appeals. A second type of assessment appeal is called a Base Year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Appeals in the Project Area. As discussed in the Fiscal Consultant's Report, assessment appeals data is not readily available from the County. As a result, a review was made of the assessment appeals status of each of the top ten taxpayers for the Gateways Project Area. The Clerk of the Board of Supervisors has reviewed a listing of all properties owned by the top ten taxpayers in the Gateways Project Area. According to the Clerk of the Board, as of March 2, 2009 there are no assessment appeals pending on any of the properties listed.

Outstanding Indebtedness of the Gateways Project Area

Currently, the Gateways Project Area has $2,145,000 of its 2001 Bonds outstanding. For a summary of other outstanding debt of the Agency, see "APPENDIX B – Audited Financial Statements of the Agency For The Fiscal Year Ended June 30, 2008 – Note 6. Long-Term Debt".

Included in this Official Statement, as APPENDIX B, are the audited financial statements of the Agency for the Fiscal Year ended June 30, 2008. No post-audit review has been requested or will be performed. Prior years audited financial statements can be obtained from the Agency by contacting Bradley R. Grant, Finance Officer, at 678 W 18th Street, Merced, CA 95340.

As of June 30, 2008 there was $61,620, in advances by the City to the Agency with respect to the Gateways Project Area. These advances represent moneys owed by the Agency to the City. Repayment of these amounts are subordinate to other indebtedness of the Gateways Project Area, including the Bonds, with respect to application of Tax Revenues.

Major Development Activities

All properties in the Gateways Project Area are subject to the Agency's approved development standards and guidelines. The Redevelopment Plan requires that new construction comply with all applicable State statutes and local laws in effect, including City zoning ordinances and City codes for building, electrical, heating, ventilating and plumbing. The Redevelopment Plan further provides that no new improvement shall be substantially modified, altered, repaired or rehabilitated, except in accordance with development standards and/or architectural, landscape and site plans submitted to and approved by the Agency.

The Fiscal Consultant has identified a number of construction projects that are underway or have been recently completed within the Gateways Project Area. These include single family residential in-fill construction as well as commercial, hotel and industrial buildings. Developments that were completed after the January 1, 2008 lien date or that are currently under construction are expected to add $18 million in new value to the 2009-10 tax rolls. These additional values have been factored into the Fiscal Consultant's projections of assessed value and revenue.

From January 1, 2008 lien date for the 2008-09 tax-roll through December 31, 2008, 101 properties within the Gateways Project Area transferred ownership. The sales prices on these transfers were $5,114,964 less than the enrolled values on these properties. As a result, this decreased value is reflected in the projected values for 2009-10 in the projection of tax revenue shown on Table 6 herein.

Wal-Mart has proposed a major distribution center within the Gateways Project Area, totaling about 1.2 million square feet in size, representing an investment over $70 million, with a projected initial hiring of over 600 jobs. Wal-Mart has made application for development, and a Draft Environmental Impact Report has been published and is in its public comment period. Following the close of the comment period, a final EIR will be completed, and the application will be processed through the Merced Planning Commission and City Council. The application hearings are expected in July through September 2009. Although none of the new assessed value which may be attributable to the Wal-Mart project has been included in the projections of assessed valuation contained elsewhere herein, the Wal-Mart project, if and when completed, would create significant additional assessed valuation in the Gateways Project Area and could permit the issuance of additional parity debt by the Agency.

Tax Sharing Statutes

Each of the three component areas of the Gateways Project Area was adopted after January 1, 1994 and is therefore, subject to the Law as it was amended by passage of AB 1290. As amended, the Law requires that for project areas adopted or for territory added to an existing project area after January 1, 1994, a prescribed portion of the Agency's tax increment revenue must be shared with all taxing entities within the project area. This defined tax-sharing amount has three tiers. The first tier begins with the first year that the project area receives tax increment revenue and continues for the life of the project area. This first tier tax-sharing amount is 25% of the Agency's gross tax increment revenue net of the Housing Tax Revenues.

The second tier begins in the eleventh year after the Agency first receives tax increment revenue. This second tier is 21% of the tax increment revenue, net of the Housing Tax Revenues, that is derived from the growth in assessed value that is in excess of the assessed value of the project area in year ten.

The third tier begins in the 31st year after the Agency first receives tax increment revenue. This third tier is 14% of the tax increment revenue, net of the Housing Tax Revenues that is derived from the growth in assessed value that is in excess of the assessed value of the project area in the 30th year. These three tiers of tax sharing are calculated independent of one another and continue from their inception through the life of the project area.

Section 33607.5(e) of the Law specifies a procedure whereby the Agency may request subordination of the statutory tax sharing payments to payment of debt service on the Bonds by all of the Gateways Project Area's taxing entities. As part of this request, the Agency must provide substantial evidence to the taxing entities that it will have sufficient funds to make the debt service payments on the Bonds as well as making the required statutory tax sharing payments.

The taxing entities may respond and agree to the subordination request, they may do nothing and after 45 days be deemed to have agreed to the subordination or they may disapprove the subordination request. A taxing entity may disapprove a subordination request only if it believes based on substantial evidence that the Agency's financial estimates are incorrect and that the Agency will not be able to make debt service and the tax sharing payments. The Agency has provided sufficient evidence to warrant subordination of the tax sharing payments and, therefore, the tax sharing payments are subordinate to the payment of debt service on the Bonds. The Agency has obtained subordination of the statutory payments with respect to the 2001 Bonds by agreements with such taxing entities, excepting the Merced Community College District and the Weaver Elementary School District. See Table 7 "Debt-Service Coverage – Non-Housing Portion of Bonds and 2001 Bonds".

Projected Tax Revenues; Debt Service Coverage

The tax increment revenue projections for the Gateways Project Area, as prepared by Agency and the Fiscal Consultant, are summarized below. All of the projections commence with the reported values for Fiscal Year 2008-09, plus unitary revenues for Fiscal Year 2007-08.

In projecting Tax Revenues and debt service coverage, the Fiscal Consultant assumed the following:

<u>Tax Rate</u>: The projections assume a 1% tax rate.

<u>Assessed Value</u>: The projections utilize fiscal year 2008-09 assessed values as reported by the County as the baseline value.

<u>Personal Property</u>: Held constant at the 2008-09 level.

Unitary Revenue: Held constant at the estimated 2008-09 level.

Inflation Rate: In California, real property values (land and improvements) are subject to an annual inflationary increase, as allowed under Proposition 13. The projection table assumes, with respect to secured and unsecured property, a 2.0% inflation factor in fiscal year 2008-09 and thereafter. See "BONDOWNERS' RISKS – Reduction in Inflationary Rate and Changes in Legislation; Further Initiatives." Assessed values of personal property and state-assessed (non-unitary property) are assumed to remain at their estimated fiscal year 2008-09 levels.

Property Transfers: The projections do not assume there will be any impact from property transfers.

New Development: The projections include in the fiscal year 2009-10 values the projected value ($18,554) of (i) new construction that was underway and (ii) new construction that had been completed but had not been reflected on the tax rolls.

Appeals: The projections assume assessed values are not reduced in fiscal year 2008-09 as a result of the resolution of pending appeals.

Housing Set-Aside: The projections assume 20% of Tax Increment generated in the Gateways Project Area will be deducted as part of the calculation of Tax Revenues. A portion of the Housing Tax Revenues will be used to pay debt service on the Bonds and the 2001 Bonds. See "SECURITY FOR THE BONDS – Housing Tax Revenues".

County Administrative Charge. The projections assume a County administrative charge equal to 1.32% of gross tax increment generated in the Gateways Project Area will be deducted as part of the calculation of Tax Revenues.

Tax-Sharing Obligations: The projections assume all Statutory Tax Sharing payments will be subordinate to payment of debt service on the Bonds.

TABLE 6
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
Projected Tax Increment Revenues (Dollars in Thousands)

	Total Taxable Value	Taxable Value over Base [1]	Gross Tax Revenue[2]	Housing Set Aside[3]	County Admin Fee [4]	Project Area Share of ERAF	Projected Tax Revenues
2008-09	$623,824	$278,155	$2,787	$(557)	$(37)	$(188)	$2,005
2009-10	649,034	303,365	3,039	(608)	(40)	--	2,391
2010-11	661,864	316,195	3,167	(633)	(42)	--	2,492
2011-12	674,950	329,281	3,298	(660)	(44)	--	2,595
2012-13	688,299	342,630	3,432	(686)	(45)	--	2,700
2013-14	701,914	356,245	3,568	(714)	(47)	--	2,807
2014-15	715,801	370,132	3,707	(741)	(49)	--	2,916
2015-16	729,967	384,298	3,848	(770)	(51)	--	3,018
2016-17	744,415	398,746	3,993	(799)	(53)	--	3,142
2017-18	759,153	413,484	4,140	(828)	(55)	--	3,257

(1) Base year value is $345,359.
(2) The tax rate utilized for the projection is $1.00 per $100 of taxable assessed valuation.
(3) Housing Set Aside calculated at 20% of Gross Revenue.
(4) County administration fee is calculated at 1.32% of gross tax increment.
Source: HdL Coren & Cone.

The following table shows projected debt service coverage on the portion of Bonds and 2001 Bonds that are payable from Tax Revenues other than Housing Tax Revenues.

TABLE 7
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
Debt Service Coverage- Non-Housing Portion of Bonds and 2001 Bonds
(Dollars in Thousands)

Fiscal Year	Projected Tax Revenues[1]	Non-Housing 2009 Bonds Debt Service[2]	Non-Housing 2001 Bonds Debt Service	Total Non-Housing Debt Service[2]	Non-Housing Coverage[2]
2009-10	$2,391	$499	$ 145	$644	371%
2010-11	2,492	790	148	938	266%
2011-12	2,595	791	146	937	277%
2012-13	2,700	791	149	940	287%
2013-14	2,807	790	146	936	300%
2014-15	2,916	794	148	942	310%
2015-16	3,018	796	145	941	321%
2016-17	3,142	788	147	935	336%
2017-18	3,257	794	149	943	345%

(1) Excluding the 20% Housing Set-Aside amount.
(2) $10,835,000 Non-Housing Bonds. Minimum coverage required for Additional Bonds is 145%.
Source: HdL Coren & Cone.

Table 8 shows projected debt service coverage on the portion of Bonds and 2001 Bonds that are payable from Housing Tax Revenues.

TABLE 8
REDEVELOPMENT AGENCY OF THE CITY OF MERCED
Merced Gateways Redevelopment Project
Debt Service Coverage- Housing Portion of Bonds and 2001 Bonds
(Dollars in Thousands)

Fiscal Year	Projected Housing Tax Revenues[1]	Housing 2009 Bonds Debt Service[2]	Housing 2001 Bonds Debt Service	Total Housing Debt Service[2]	Housing Coverage[2]
2009-10	$608	$104	$ 19	$123	494%
2010-11	633	172	19	191	331%
2011-12	660	170	18	188	351%
2012-13	686	169	18	187	367%
2013-14	714	168	18	186	384%
2014-15	741	171	18	189	392%
2015-16	770	169	22	191	403%
2016-17	799	168	22	190	421%
2017-18	828	170	21	191	434%

(1) 20% Housing Set-Aside amount.
(2) $2,285,000 Housing Bonds; preliminary. Minimum coverage required for Additional Bonds is 145%.
Source: HdL Coren & Cone.

BONDOWNERS' RISKS

The following section describes certain risk factors affecting the payment and security of the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

Bonds Are Limited Obligations and Not General Obligations

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

The Bonds do not evidence a debt of the Agency or the City within the meaning of any constitutional or statutory debt limitation provision.

Reduction in Taxable Value; Plan Limitations

Tax Revenues allocated to the Agency are determined by the amount of incremental taxable value in the Gateways Project Area and the current rate or rates at which property in the Gateways Project Area is taxed. The reduction of taxable values of property in the Gateways Project Area caused by economic factors beyond the Agency's control, such as a relocation out of the Gateways Project Area by one or more major property owners, successful appeals by property owners for a reduction in property's assessed value, blanket reductions in assessed value due to general reductions in property values or the complete or partial destruction of such property caused by, among other eventualities, an earthquake or other natural disaster, could cause a reduction in Tax Revenues securing the Bonds. The Fiscal Consultant's Report presents an analysis of Proposition 8 reductions (applicable when a property's market value is less than its current assessed value) in the Gateways Project Area. The 2008-09 tax roll was reduced by approximately $24 million due to Proposition 8 reductions. See "APPENDIX D - Fiscal Consultant's Report – III. Project Area Assessed Values".

These risks and risks of delinquent payments may generally be exacerbated by the relatively high concentration of ownership in the Gateways Project Area. See "THE GATEWAYS PROJECT AREA - Assessed Valuation Information." Such reduction of Tax Revenues could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the Bonds.

In addition, limitations on the Agency's receipt and use of tax increment revenues may also affect the availability of Tax Revenues. See "SECURITY FOR THE BONDS - Housing Tax Revenues" and "LIMITATIONS ON TAX REVENUES - Plan Limitations."

Reduction in Inflationary Rate and Changes in Legislation; Further Initiatives

As described in greater detail below (see "LIMITATIONS ON TAX REVENUES"), Article XIIIA of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis.

Article XIIIA of the California Constitution, which significantly affected the rate of property taxation, was adopted pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might alter the calculation of tax increment revenues, reduce the property tax rate, or broaden property tax exemptions. Future legislative reallocation of the 1% basic levy among the affected taxing entities could increase the taxes retained by certain taxing entities with a corresponding reduction in Tax Revenues. See "LIMITATIONS ON TAX REVENUES - Property Tax Limitations - Article IIIA."

Factors Relating to Sub-Prime Loans

In recent years, many homeowners have financed the purchase of their new homes using loans with little or no down-payment and with adjustable interest rates that are subject to being reset at higher rates on a specified date or on the occurrence of specified conditions. Many of these loans (often referred to as "sub-prime loans") allow the borrower to pay only interest for an initial period, which may extend in some loans up to 10 years. In the opinion of some economists, the significant increase in home "affordability" in recent years while home prices increased significantly in most California real estate markets, was caused, in part, by the ability of home purchasers to access loans with little or no down-payment. Homeowners who purchased their homes with sub-prime loans have begun to experience difficulty in making their loan payments due to automatic rate increases on their adjustable loans, rising interest rates in the market, and the inability to refinance due to decreasing residential market values.

The Fiscal Consultant Report includes information on the number of notices of default, notices of trustee sales and bank-owned properties (all predecessors to foreclosures) by Gateways Project Area ZIP codes. The data presented in the Fiscal Consultant's Report indicates that approximately 2.12% of the assessed value in the Gateways Project Area has been affected by this activity. See "APPENDIX D - Fiscal Consultant's Report - Trended Taxable Value Growth".

Increased delinquency rates could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the Bonds. Moreover, if mortgage loan defaults continue to increase, bankruptcy filings by homeowners are also likely to increase. Bankruptcy filings by homeowners with delinquent property taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent property taxes. In addition, foreclosures can affect taxable values and tax revenues for the Gateways Project Areas directly and indirectly. If the assessed value of the property is higher than the market value of the property when the bank takes over ownership, the Assessor's office will reduce the assessed value of the property accordingly. The assessed value will potentially be adjusted again when the property is sold by the bank to an individual homeowner. When the number of foreclosures in an area is significant, they can also have a negative impact on market values as such properties tend to be priced low for quick sales.

Finally, as a result of increasing defaults on "sub-prime loans" in recent months, investor demand for loans on the secondary market, particularly those that are not insured by Fannie Mae or Freddie Mac, has declined. This decreased investor demand for loans, particularly jumbo loans, has caused the interest rate on loans to increase. In some cases, lenders have stopped making jumbo loans altogether. Unavailability of loans for the purchase of real property in the Gateways Project Areas may adversely impact the assessed value of property in the Gateways Project Areas and, as a result, adversely impact Tax Revenues available to pay debt service on the Bonds.

Development Risk

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

Concentration of Ownership

The top ten largest secured property taxpayers in the Gateways Project Area account for $83,102,335, or approximately 13.3% of the secured assessed value of the Gateways Project Area for 2008-09. Concentration of ownership presents a risk in that if one or more of the largest property owners were to default on their taxes, or were to successfully appeal the tax assessments on property within the Gateways Project Area, a substantial decline in Tax Revenues could result. See "THE GATEWAYS PROJECT AREA – Assessed Valuation Information" herein.

Levy and Collection

The Agency has no independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Agency to make debt service payments on the Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency's ability to make timely debt service payments on the Bonds should the County discontinue its Teeter Plan and allocate tax increment revenues to the Agency based upon the tax increment actually collected.

The tax increment revenue projections provided in Table 6 present the amount of gross tax increment expected to be allocated from the Gateways Project Area over the term of the projections. Tax increment revenue figures represented in this Table do not include supplemental tax revenues and have not been reduced for delinquencies or successful assessment appeals activity.

State Budget Deficit; ERAF

The State of California faces significant budget issues for fiscal year 2008-09 and beyond. In connection with its approval of former budgets, the State Legislature enacted legislation, that among other things, reallocated a portion of funds from redevelopment agencies to school districts by shifting a portion of each agency's tax increment to school districts ("ERAF" shifts or "ERAF" transfers).

Historical ERAF Shifts. The 2004-05 State Budget included a transfer by redevelopment agencies to the applicable ERAFs of $250 million in each of fiscal years 2004-05 and 2005-06. The Agency's share of the annual $250 million shift for fiscal years 2004-05 was $489,861.82 and the share for fiscal year 2005-06 was $461,909.57. The Agency paid its ERAF payments for fiscal years 2004-05 and 2005-06 on a timely basis. The Agency was not required to make an ERAF payment in 2006-07 or in fiscal year 2007-08.

Fiscal Year 2008-09. In approving the budget for fiscal year 2008-09, the Legislature fixed an aggregate ERAF transfer for the year at $350 million, of which the Agency is obligated to pay approximately $577,332 as its allocated share. Unlike prior years, there is no redevelopment plan time limit extension for agencies making the ERAF payment, but tax increment used to pay ERAF transfers does not count against the Agency's cumulative tax increment limit. In calculating fiscal year 2008-09 tax increment revenues, the Fiscal Consultant has assumed an ERAF transfer of $577,332. The Agency has funds available to pay timely its ERAF payment for fiscal year 2008-09.

In November, 2008, the Governor called the State Legislature into special session to deal with the project budget deficit of several billion dollars. In February, 2009, the State Legislature adopted and the Governor signed a budget package addressing the 2008-09 budget deficit for fiscal year 2008-09 and adopting a budget for fiscal year 2009-10. The revised budget for fiscal year 2008-09 did not increase the amount of the ERAF transfer contained in the original 2008-09 budget. In addition, there is currently no ERAF transfer imposed on redevelopment agencies in the budget adopted for fiscal year 2009-10. For projecting future tax increment revenues, the Fiscal Consultant has assumed no ERAF transfers in future fiscal years

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

Future Fiscal Years; CRA Litigation. Although the State's voters approved a constitutional amendment on the November 2004 ballot (the "Local Government Initiative"), which purports to prohibit any further transfers of non-education local government property taxes for the benefit of the State, the Local Government Initiative does not purport to change existing law with respect to the State's ability to transfer redevelopment agencies' property tax revenues.

In this regard, in December, 2008, the California Redevelopment Association ("CRA") and others filed a petition for a writ of mandate in the Sacramento County Superior Court seeking a determination against the California State Director of Finance and applicable County Auditors that would prohibit the ERAF transfers for fiscal year 2008-09 and future fiscal years. The position of the CRA and others filing the petition is that such an ERAF transfer, among other things, violates the provision of the State Constitution that requires tax increment revenues to be used solely for redevelopment purposes. In March, 2009, the Sacramento Superior Court held a hearing on the petition and the ruling of the Court on the submitted matter was rendered on April 30, 2009. The Court ruled that the petition was granted in part and that the petitioners are entitled to declaratory and injunctive relief invalidating and enjoining the operation of the ERAF transfer for fiscal year 2008-09.

The Agency cannot know whether the Court's ruling will be appealed, or predict the final outcome of this litigation. In addition, the Agency cannot predict whether the State Legislature will, in future years, enact legislation requiring shifts of tax increment revenues to the State or to schools, whether through an arrangement similar to ERAF or by any other arrangement, in future years, or whether any future shifts in revenue would be limited or affected (such as by an offset of amounts required to be shifted) by pre-existing agreements between redevelopment agencies and school districts, community college districts and county superintendents of schools. Accordingly, the Agency is not able to predict the effect, if any, such a shift, if enacted, would have on future Tax Revenues.

Additional Financing

Following the issuance of the Bonds, the Agency may issue one or more additional series of bonds and/or notes. Subject to compliance with the limitations of the Indenture, such obligations may be issued on a parity with or subordinate to the Bonds. See "DESCRIPTION OF THE BONDS – Parity Debt and Subordinate Debt."

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Agency has covenanted in the Indenture to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1986, as amended, relative to arbitrage and avoidance of characterization as private activity bonds, among other things. The interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Bonds as a result of acts or omissions of the Agency in violation of covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to acceleration, redemption or any increase in interest rates and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture. See "TAX MATTERS" herein.

Seismic Risk and Flood Risk

The City, like all California communities, may be subject to unpredictable seismic activity. According to the Safety Element of the City's General Plan, the City is vulnerable to shaking from a number of faults that run through the mountains to the east and west. The City is not located on any known faults. The City is located in seismic zone 3, (zone 4 being the most restrictive, such as is the case in San Francisco or Los Angeles). The best known fault, the San Andreas fault, is about fifty miles away west of the San Luis Reservoir. Other active faults that lie closer to the City include the Calaveras fault, the Ortigalita fault and the Bear Mountain fault.

There is no evidence that a ground surface rupture will occur in the event of an earthquake, but there is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Gateways Project Area. As a result, the value of taxable land in the Gateways Project Area could be diminished in the aftermath of such an earthquake, through appeals, thereby reducing the amount of Tax Revenues. The City has adopted the Uniform Building Code and Uniform Building Code Standards adopted by the State. All new construction is required to comply with the highest earthquake resistance design standard presently in use in California.

Much of the Gateways Project Area is in a 100 year flood plain zone and certain mitigation measures relating to new construction are required to be followed in such areas. According to information contained in the Safety Element of the City's General Plan, flooding can be especially troublesome in the Central Valley because it is a natural event. The valley is a drainage basin for thousands of acres of Sierra and Diablo foothill and mountain terrain. In 1911, 1935 and 1955, large floods occurred within those portions of the City that were developed at the time, and in the intervening years, flooding occurred every three to five years. Most floods in the City are produced by extended periods of rainfall during the winter months. Dam failures can be another source of flooding. The Merced County Streams Group Project Plan and the Merced County Critical Area Flooding and Drainage Plan should reduce the risk of flooding within the City's planning area.

Property Tax Appeals

As discussed in the Fiscal Consultant's Report, assessment appeals data is not readily available from the County. There are currently no pending assessment appeals of the top ten taxpayers within the Gateways Project Area. See "THE GATEWAYS PROJECT AREA – Appeals to Assessed Value." Reductions in assessed value have not been taken into consideration in projecting future gross tax increment revenue.

Any reduction of assessed valuations could result in a reduction of the Tax Revenues, which in turn could impair the ability of the Agency to make payments of principal of and/or interest on the Bonds when due.

Hazardous Substances

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

Bankruptcy and Foreclosure

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

For further discussion of other factors that may affect the amount of tax increment revenue collected by the Agency, see "THE GATEWAYS PROJECT AREA" herein.

Enforceability of Remedies

The remedies available to the Trustee and the registered owners of the Bonds upon an event of default under the Indenture or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of the legal documents with respect to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Investment of Funds

The Reserve Account and all other funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See "APPENDIX A-SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." All investments, including Permitted Investments, authorized by law from time to time for investments by redevelopment agencies contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture, or the funds and accounts held by the Agency could have a material adverse effect on the security for the Bonds and/or the financial condition of the Agency.

Secondary Market

There can be no assurance that there will be a secondary market for the Bonds, or if a secondary market exists, that such Bonds can be sold for any particular price. 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, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

LIMITATIONS ON TAX REVENUES

Property Tax Limitations - Article XIIIA

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

Article XIIIA further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII was adopted in August 1986 by initiative that exempts any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property from the 1 percent limitation. On December 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds *(Amador Valley Joint Union School District v. State Board of Equalizatio*n).

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amended Article XIIIA. Proposition 58 amended Article XIIIA to provide that the terms “purchased” and “change of ownership,” for purposes of determining full cash value of property under Article XIIIA, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first $1,000,000 of other property between parents and children.

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

Article XIIIA has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other minor or technical ways. See “BONDOWNERS’ RISKS -Reduction in Taxable Value; Plan Limitations” herein.

Challenges to Article XIIIA

California trial and appellate courts have upheld the constitutionality of Article XIIIA’s assessment rules in three significant cases. The United States Supreme Court in an appeal to one of these cases upheld the constitutionality of Article XIIIA’s tax assessment system. The Agency cannot predict whether there will be any future challenges to California’s present system of property tax assessment and cannot evaluate the ultimate effect on the Agency's receipt of Tax Revenues should a future decision hold unconstitutional the method of assessing property.

Implementing Legislation

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

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

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

Proposition 87

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

Proposition 87, approved by the voters of the State on November 8, 1993, requires that all revenues produced by a tax rate increase (approved by the voters on or after January 1, 1989) go directly to the taxing entity which increases the tax rate to repay the general obligation bonded indebtedness. As a result, redevelopment agencies no longer receive an increase in tax increment when taxes on property in the project area are increased to repay voter approved general obligation debt.

Property Tax Collection Procedures

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

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

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

Current tax payment practices by the County provide for payment to the Agency of tax increment revenues in mid-January and mid-May. A final reconciliation is made after the close of the fiscal year to incorporate all adjustments to previously reported current year taxable values. The difference between the final reconciliation and tax increment revenues previously allocated to the Agency is paid in late July.

Penalties. A 10% penalty, plus a $20.00 cost, is added to delinquent taxes that have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption, plus a $15.00 redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

Delinquencies. The valuation of property is determined as of January 1 each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Unsecured taxes enrolled by July 31, if unpaid, are delinquent August 31 at 5:00 p.m. and are subject to penalty; unsecured taxes added to roll after July 31, if unpaid, are delinquent on the last day of the month succeeding the month of enrollment.

Supplemental Revenue. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date (March 1 was used as the lien date as of the enactment of Chapter 498; however, as discussed below, the lien date was changed by legislation enacted in 1995) following the change and thus delayed the realization of increased property taxes from the new assessments for up to 14 months. As enacted, Chapter 498 provides increased revenue to redevelopment agencies to the extent that supplemental assessments as a result of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the lien date. To the extent such supplemental assessments occur within the Gateways Project Area, Tax Revenues may increase.

Actual tax increment receipts presented in Table 2 include supplemental roll revenue. Supplemental roll revenue is generated by the tax increment revenue created when a sale takes place or construction project is completed after January 1 of a given year (the Assessor's cut-off date for value to be attributed to next year's assessment roll) but re-assessment occurs and the owner is issued a supplemental tax bill for the period between the sale or completion of the construction and the next regular tax bill. Because these revenues are unpredictable, they have not been projected.

Tax Collection Fees

Pursuant to legislation enacted by the State Legislature (SB 2557 and AB 1924), the County of Merced in the past collected certain administrative fees for the collection and allocation of tax increment revenue to the Agency. For the Gateways Project Area, the 2007-08 county collection charge was $21,667.25. Tax increment projections presented in Table 6 are net of any County administrative fees.

Unitary Taxation of Utility Property

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 certain railroad and utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated to each tax rate area on a pro rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property 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 revenues derived from State-assessed property to taxing jurisdictions within each county as follows: for revenues generated from the one percent tax rate, each jurisdiction, including redevelopment project areas, will receive a percentage up to 102% of its prior year State-assessed unitary revenue; and if county-wide revenues generated for unitary property are greater than 102% of the previous year's unitary revenues, each jurisdiction will receive a percentage share of the excess unitary revenue generated from the application of the debt service tax rate to county wide unitary taxable value, further, each jurisdiction will receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

The intent of Chapters 1457 and 921 is to provide redevelopment agencies with their appropriate share of revenue generated from the property assessed by the State Board of Equalization. The County Auditor-Controller remitted approximately $5,000 in unitary revenue to the Agency for the Gateways Project Area during the 2007-08 fiscal year. Tax increment projections presented in Table 7 have assumed that the unitary tax revenue will remain constant in future years.

Currently, the California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated. The Agency is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation or legislation may affect the State's method of assessing utility property and the allocation of assessed value to local taxing agencies and, in turn, the receipt of such taxes by the Agency. The City is served by Pacific Gas & Electric for electricity and for gas, Merced Irrigation District for electricity, City of Merced for water, AT&T for telephone services, and various providers of cell phone service.

Housing Set-Aside

Chapter 1337, Statutes of 1976, added Sections 33334.2 and 33334.3 to the Law requiring redevelopment agencies to set-aside 20% of all tax increment derived from redevelopment project areas adopted after December 31, 1976 in a low and moderate income housing fund. This low and moderate income housing requirement could be reduced or eliminated if a redevelopment agency finds that (1) no need exists in the community to improve or increase the supply of low and moderate income housing; (2) that some stated percentage less than 20% of the tax increment is sufficient to meet the housing need; or (3) that other substantial efforts including the obligation of funds from state, local and federal sources for low and moderate income housing of equivalent impact are being provided for in the community.

The Tax Revenues pledged to the repayment of the Bonds are net of the amounts subject to Sections 33334.2, 33334.3 and 33334.6 of the Law, except for the payment of a portion of the debt service on the Bonds and the 2001 Bonds. See "SECURITY FOR THE BONDS – Housing Tax Revenues" and "Table 8" herein.

Appropriations Limitations: Article XIIIB of the California Constitution

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

The California Legislature has added Section 33678 to the Law which provides that the allocation of tax revenues to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by such agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIIIB, nor shall such portion of taxes be deemed receipt of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State of California, including Section 33678 of the Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions, *Brown v. Redevelopment Agency of the City of Santa Ana* and *Bell Redevelopment Agency v. Woosle*y. The plaintiff in *Brown* petitioned the California Supreme Court for a hearing of this case. The California Supreme Court formally denied the petition and therefore the earlier court decisions are now final and binding. On the basis of these court decisions, the Agency does not believe it is subject to Article XIIIB and has not adopted an appropriations limit.

TAX MATTERS

The Internal Revenue Code of 1986 (the "**Code**"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The Agency has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Agency described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Agency as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Agency may have different or conflicting interest from the Owners. Further, the disclosure of the initiation of an audit may adversely affect the market price of the Bonds, regardless of the final disposition of the audit.

The excess of the initial offering price to the public of the Bonds over the stated redemption price at maturity of the Bonds set forth on the inside cover of this Official Statement is "bond premium." In general, any bond premium with respect to a Bond must be amortized under section 171 of the Code. The amount of premium so amortized will reduce the owner's basis in such Bond for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. The rate of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of that Bond to the owner. Purchasers should consult their own tax advisors as to the computation and treatment of such amortizable bond premium, including, but not limited to, the calculation of gain or loss upon the sale, maturity or other disposition of a Bond.

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

Although Bond Counsel is of the opinion that interest on the Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265(a) of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and the Code contains additional limits on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

BANK QUALIFICATION

Section 265(a) of the Code provides, in general, that interest on debt incurred or continued to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265(b) of the Code generally disallows any deduction for interest expense that is incurred by a financial institution described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides two exceptions to this interest disallowance rule for financial institutions. First, the disallowance does not apply to interest expense allocable to tax-exempt obligations issued in 2009 or 2010 (other than to refund, directly or in a series of refundings, a bond originally issued before 2009) to the extent the amount of such obligations owned by a financial institution does not exceed 2% of the average adjusted bases for all its assets. Second, the disallowance does not apply to interest expense allocable to tax-exempt obligations designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000 ($30,000,000 for obligations issued in 2009 or 2010).

The Agency has designated the Bonds as "qualified tax-exempt obligations" and has certified its expectation that the above-described $30,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that a financial institution that purchases Bonds will not be subject to the 100% deduction disallowance of interest allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for such interest expense incurred by a financial institution and allocable to carrying the Bonds will be reduced by 20% pursuant to section 291 of the Code.

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates, Irvine, California has acted as financial advisor to the Agency concerning the Bonds. As financial advisor, Fieldman, Rolapp & Associates will receive compensation contingent upon the sale and delivery of the Bonds.

RATINGS

Standard & Poor’s Rating Services (“**S&P**”) has assigned its rating of “A-” to the Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of this rating may be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Piper Jaffray & Co., as the Underwriter, has agreed to purchase the Bonds at a purchase price of $12,637,144.60, (being the aggregate principal amount thereof less an underwriter's discount of $180,400.00 and less an original issue discount of $302,455.40). The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

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

NO LITIGATION

There is no litigation pending or, to the Agency's knowledge, threatened to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture, or any proceedings of the Agency with respect thereto. In the opinion of the Agency and its counsel, there are no lawsuits or claims pending against the Agency which will materially affect the Agency's finances as to impair the ability to pay principal of and interest on the Bonds when due.

LEGAL MATTERS

The legality of the issuance of the Bonds is subject to the approval of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. A copy of the opinion of Bond Counsel will accompany the Bonds upon their delivery to DTC and will be substantially in the form set forth in "APPENDIX E" herein. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Disclosure Counsel. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon successful sale and delivery of the Bonds. The City Attorney, as Agency General Counsel, will pass on certain matters for the Agency.

LEGALITY FOR INVESTMENT

The Law provides that obligations authorized and issued under the Law shall 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 Bonds are also authorized security for public deposits under the Law. The Superintendent of Banks of the State of California has previously ruled that obligations of a redevelopment agency are eligible for savings bank investment in California.

MISCELLANEOUS

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

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

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

REDEVELOPMENT AGENCY OF THE CITY OF MERCED

By: /s/ John M. Bramble
Executive Director

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust The following is a brief summary of certain provisions of the Indenture of Trust, dated as of December 1, 2001, as amended and supplemented by the First Supplement to Indenture of Trust, dated as of May 1, 2009 (as so amended and supplemented, the "Indenture") authorizing the Redevelopment Agency of the City of Merced, Merced Gateways Redevelopment Project, 2009 Tax Allocation Bonds, Series A (the "2009 Bonds"), that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual Indenture (copies of which may be obtained from the Trustee) for the complete terms thereof.

Definitions

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

"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. Annual Debt Service includes payments, for each Bond Year, on any additional Parity Debt.

"Bond" or "Bonds" means, the 2001 Bonds, the 2009 Bonds, and, when the context requires, includes any additional Parity Debt.

"Bond Counsel" means an attorney or firm of attorneys appointed by or acceptable to the Agency, of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"Bond Year" means, any twelve-month period beginning on September 2 in any year and ending on the next succeeding September 1, both dates inclusive, except that, with respect to the 2009 Bonds, the first Bond Year shall begin on the Closing Date and end on September 1, 2009.

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

"Closing Date" means the date on which the 2009 Bonds are delivered by the Agency to the Original Purchaser.

"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 proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement relating to the 2009 Bonds by and between the Agency and the Trustee, as dissemination agent, and dated the date of issuance and delivery of the 2009 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Agency relating to the authorization, issuance, sale and delivery of the 2009 Bonds, including but not limited to printing expenses, rating agency fees, municipal bond insurance premiums, filing and recording fees, initial fees, expenses and charges of the Trustee, and its counsel, including the Trustee's first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the 2009 Bonds and any other cost, charge or fee in connection with the original issuance of the 2009 Bonds.

"County" means the County of Merced, a county duly organized and existing under the laws of the State.

"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 Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) 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 Agency as its official fiscal year period in writing to the Trustee.

"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 Agency, and who, or each of whom: (a) is in fact independent and not under domination of the Agency; (b) does not have any substantial interest, direct or indirect, with the Agency; and (c) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

"Independent Redevelopment Consultant" means any consultant or firm of such consultants appointed by or acceptable to the Agency and who, or each of whom: (a) is judged by the Agency to have experience in matters relating to the collection of Tax Revenues or otherwise with respect to the financing of Redevelopment Projects; (b) is in fact independent and not under domination of the Agency; (c) does not have any substantial interest, direct or indirect, with the Agency; and (d) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year, including payments on any additional Parity Debt, as certified in writing by the Agency to the Trustee. For purposes of such calculation, there shall be excluded a pro rata portion of each installment of principal of any Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of such Parity Debt are deposited in an escrow fund from which amounts may not be released to the Agency unless the Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County), at least equal one hundred forty-five percent (145%) of the amount of Maximum Annual Debt Service.

"Moody's" means Moody's Investors Service Inc., of New York, New York, and its successors.

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

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

"Parity Debt" means any additional loans, advances or other indebtedness issued or incurred by the Agency on a parity with the Bonds pursuant to the Indenture.

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

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

(a) Federal Securities;

(b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

(c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) senior debt obligations of the Federal

Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal); (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations (but only the interest component of stripped obligations) of the Resolution Funding Corporation; and (vi) consolidated system wide bonds and notes of the Farm Credit System;

(d) money market funds (including funds of the Trustee or its affiliates) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm", or "AAm", and, if rated by Moody's, rated Aaa, Aa1 or Aa2, including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(e) certificates of deposit secured at all times by collateral described in (a) or (b) above, which have a maturity of one year or less, which are issued by commercial banks, including affiliates of the Trustee, savings and loan associations or mutual savings banks, and such collateral must be held by a third party, and the Trustee on behalf of the Bond Owners must have a perfected first security interest in such collateral;

(f) certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation;

(g) investment agreements, including guaranteed investment contracts, which are general obligations of an entity whose long term debt obligations, or claims paying ability, respectively, is rated one of the two highest rating categories by Moody's or S&P;

(h) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(i) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(j) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(k) repurchase agreements which provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date, which satisfy the following criteria:

(i) repurchase agreements must be between the Trustee and (A) a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the Securities Investors Protection Corporation and which are rated "A" or better by Moody's and S&P, or (B) a bank rated "A" or better by Moody's and S&P;

(ii) the written repurchase agreement contract must include the following: (A) securities acceptable for transfer, which may be direct U.S. government obligations, or federal agency obligations backed by the full faith and credit of the U.S. government; (B) the term of the repurchase agreement may be up to 30 days; (C) the collateral must be delivered to the Trustee or a third party acting as agent for the Trustee simultaneous with payment (perfection by possession of certificated securities); (D) the Trustee must have a perfected first priority security interest in the collateral; (E) the collateral must be free and clear of third-party liens and, in the case of a broker which falls under the jurisdiction of the Securities Investors Protection Corporation, are not subject to a repurchase agreement or a reverse repurchase agreement; (F) failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate the collateral; (G) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest (unless the securities used as collateral are obligations of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, in which case the collateral must be equal to 105% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest). If the value of securities held as collateral falls below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred; and

(iii) a legal opinion must be delivered to the Trustee to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds;

(l) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P; provided, however, pre-refunded municipal bonds rated by S&P only (i.e., no Moody's rating) are acceptable if such pre-refunded municipal bonds were pre-refunded with cash, direct U.S. or U.S. guaranteed obligations or AAA rated pre-refunded municipal bonds; and

(m) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to deposit and withdraw from such investment directly in its own name.

"Project Area" means the territory within the Redevelopment Project, as described in the Redevelopment Plan.

"Redevelopment Fund" means the fund by that name established and held by the Agency pursuant to the Indenture.

"Redevelopment Plan" means the Redevelopment Plan for the Redevelopment Project designated as "Merced Gateways Redevelopment Project" approved by Ordinance No. 1939 adopted by the City Council of the City of Merced on July 8, 1996, as amended by Ordinance No. 2043, adopted July 17, 2000, and as further amended by Ordinance 2201, adopted on July 18, 2005, together with any amendments thereof heretofore or hereafter duly enacted pursuant to the Law.

"Redevelopment Project" means the Merced Gateways Redevelopment Project as described in the Redevelopment Plan.

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

"Reserve Requirement" means, as of the date of calculation, the lesser of the amount of Maximum Annual Debt Service or the amount then permitted by the Code to be deposited in the Reserve Account.

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

"Sinking Account" means the account by that name established with respect to any applicable Parity Debt and held by the Trustee pursuant to Section 4.03(c).

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

"Tax Revenues" means all taxes pledged and annually allocated, following the Closing Date, and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and including that portion of such taxes otherwise required by Section 33334.3 of the Law to be deposited in the Low and Moderate Income Housing Fund, but only to the extent necessary to repay that portion of the Bonds and that portion of any Parity Debt (including applicable reserves and financing costs) issued to finance or refinance amounts deposited in the Low and Moderate Income Housing Fund for use pursuant to Section 33334.2 of the Law to increase or improve the supply of low and moderate income housing within or of benefit to the Project Area; but excluding all other amounts of such taxes (if any) (i) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.3 of the Law for increasing and improving the supply of low and moderate income housing, (ii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Tax Code, and (iii) amounts payable by the Agency pursuant to Sections 33607.5 and 33607.7 of the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds or to the payment of Parity Debt, as applicable.

"2009 Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

Establishment of Funds and Accounts; Flow of Funds

2009 Costs of Issuance Fund. The moneys in the 2009 Costs of Issuance Fund will be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Request of the Agency stating (a) the person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the 2009 Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior Request of the Agency. On the earlier of (i) six (6) months from the Closing Date, or (ii) the date of receipt by the Trustee of a Request of the Agency therefor, all amounts (if any) remaining in the 2009 Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Agency for deposit in the Low and Moderate Income Housing Fund and the Redevelopment Fund pro rata based on the initial deposit into such accounts. Amounts in the 2009 Costs of Issuance Fund are not pledged as security for the Bonds.

Redevelopment Fund. Any moneys in the Redevelopment Fund will be used and withdrawn by the Agency solely in accordance with the Law and the Redevelopment Plan. Any amounts in the Redevelopment Fund are not pledged as security for the Bonds.

Special Fund; Deposit of Tax Revenues. The Agency will hold the Special Fund, and will deposit all of the Tax Revenues received in any Bond Year in the Special Fund promptly upon receipt thereof by the Agency until such time during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Redemption Account in such Bond Year pursuant to the Indenture and any Supplemental Indenture. All Tax Revenues received by the Agency during any Bond Year in excess of the amount required to be deposited in the Special Fund during such Bond Year as described in the preceding sentence are released from the pledge and lien of the Indenture for the security of the Bonds and may be applied by the Agency for any lawful purposes of the Agency. Prior to the payment in full of the principal of any interest and redemption premium (if any) on the Bonds, and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indenture, the Agency shall not have any beneficial right or interest in the moneys on deposit in the Special Fund, except as may be provided in the Indenture.

Debt Service Fund; Transfer of Amounts to Trustee. The Trustee will establish a Debt Service Fund, which is pledged as security of the Bonds. The Agency will transfer moneys in the Special Fund to the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective special accounts established within the Debt Service Fund, in the following order of priority:

(a) Interest Account. On or before the third (3rd) Business Day preceding each date on which interest on the Bonds is due and payable, the Agency will withdraw from the Special Fund and transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such date. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. On or before the third (3rd) Business Day preceding each date on which principal of the Bonds is due and payable at maturity, the Agency will withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will be equal to the amount of principal coming due and payable on such date on the Outstanding Bonds. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds upon the maturity thereof.

(c) Sinking Account. On or before the third (3rd) Business Day preceding each date on which any Outstanding Term Bonds are subject to mandatory Sinking Account redemption, the Agency will withdraw from the Special Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds required subject to mandatory Sinking Account redemption on such date. All moneys on deposit in the Sinking Account will be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Term Bonds as it comes due and payable upon the mandatory Sinking Account redemption thereof.

(d) Reserve Account. In the event that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee will promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency will transfer to the Trustee an amount of available Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. Amounts in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account, the Principal Account and the Sinking Account, in such order of priority, on any date which the principal of or interest on the Bonds comes due and payable, in the event of any deficiency at any time in any of such accounts, or at any time for the retirement of all the Bonds then outstanding. So long as no Event of Default has occurred and is continuing, any amount in the Reserve Account in excess of the Reserve Requirement on or before the Business Day preceding each Interest Payment Date will be withdrawn from the Reserve Account by the Trustee and deposited in the Interest Account.

The Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of separate issues of the Bonds in conformity with applicable provisions of the Code.

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

Investment of Funds

Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Reserve Account, the Sinking Account, the Redemption Account and the 2009 Costs of Issuance Fund will be invested by the Trustee in Permitted Investments specified in the Request of the Agency delivered to the Trustee at least two (2) Business Days in advance of the making of such investments; *provided, however,* that in the absence of any such direction from the Agency, the Trustee will invest any such moneys solely in Permitted Investments described in clause (d) of the definition thereof. Moneys in the Special Fund will be invested by the Agency in any obligations in which the Agency is legally authorized to invest funds within its control. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. Whenever in the Indenture any moneys are required to be transferred by the Agency to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any funds or accounts will be retained in the respective fund or account from which such Investment was made; *provided, however,* that all interest or gain from the investment of amounts in the Reserve Account will be deposited by the Trustee in the Interest Account to the extent not required to cause the balance in the Reserve Account to equal the Reserve Requirement. 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 will incur no liability for losses arising from any investments made pursuant to the Indenture.

Issuance of Parity Debt

In addition to the 2001 Bonds and the 2009 Bonds, the Agency may issue or incur Parity Debt in such principal amount as shall be determined by the Agency, pursuant to a Supplemental Indenture adopted or entered into by the Agency. The Agency may issue or incur such Parity Debt subject to the following specific conditions precedent:

(a) The Agency shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures.

(b) The Tax Revenues received in the immediately preceding Bond Year based on the most recent assessed valuation of taxable property in the Project Area (as shown in the records of Merced County), shall be at least equal to one hundred forty-five percent (145%) of Maximum Annual Debt Service on all Bonds which will be Outstanding immediately following the issuance of such Parity Debt.

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

(d) The Supplemental Indenture providing for the issuance of such Parity Debt shall provide for the deposit into the Reserve Account of an amount required to cause the balance therein to equal the full amount of the Reserve Requirement.

(e) The Agency shall deliver to the Trustee a Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt described above have been satisfied.

Issuance of Subordinate Debt

The Agency may, from time to time, issue or incur Subordinate Debt in such principal amount as may be determined by the Agency.

Certain Other Covenants of the Agency

Limitation on Additional Indebtedness. The Agency agrees in the Indenture that it will not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable from all or any part of the Tax Revenues, excepting only the 2001 Bonds, the 2009 Bonds, Parity Debt and Subordinate Debt.

Extension of Payment of Bonds. The Agency will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest is extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Outstanding Bonds and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture will limit the right of the Agency to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not constitute an extension of maturity of the Bonds.

Payment of Claims. The Agency will 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 Tax Revenues or any part thereof, or upon any funds held by the Trustee pursuant to the Indenture, or which might impair the security of the Bonds. Nothing in the Indenture will require the Agency to make any such payment so long as the Agency in good faith contests the validity of said claims.

Books and Accounts; Financial Statements. The Agency will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the City, in which complete and correct entries are made of all transactions relating to the Tax Revenues and the Special Fund. Such books of record and accounts will at all times during business hours be subject to the inspection of the Owners of not less than ten percent 10% in aggregate principal amount of the Bonds then outstanding, or their representatives authorized in writing.

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

Disposition of Property. The Agency will not participate in the disposition of any land or real property in the Redevelopment Project to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) so that such disposition, when taken together with other such dispositions, aggregates more than ten percent (10%) of the land area in the Redevelopment Project unless such disposition is permitted as hereinafter described. If the Agency proposes to participate in such a disposition, it will appoint an Independent Redevelopment Consultant to report on the effect of said proposed disposition. If the Report of the Independent Redevelopment Consultant concludes that the security of the Bonds or the rights of the Owners will not be materially adversely impaired by said proposed disposition, the Agency may thereafter make such disposition. If said Report concludes that such security will be materially adversely impaired by said proposed disposition, the Agency shall disapprove such proposed disposition.

Maintenance of Tax Revenues. The Agency will comply with all requirements of the Redevelopment Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and the State. The Agency shall not permit the City to undertake proceedings for amendment of the Redevelopment Plan if such amendment shall result in payments to one of more taxing entities pursuant to Sections 33607.5 and 33607.7 of the Law unless such amendment will not adversely impair the Agency's ability to pay debt service on the Bonds.

Compliance With Law; Low and Moderate Income Housing Fund. The Agency shall ensure that all activities undertaken by the Agency with respect to the redevelopment of the Project Area are undertaken and accomplished in conformity with all applicable requirements of the Redevelopment Plan and the Law, including, without limitation, duly noticing and holding any public hearing required by either Section 33445 or Section 33679 of the Law prior to application of proceeds of the Bonds to any portion of the Redevelopment Project. Without limiting the generality of the foregoing, the Agency covenants that it shall deposit or cause to be deposited in the Low and Moderate Income Housing Fund established pursuant to Section 33334.3 of the Law, all amounts when, as and if required to be deposited therein pursuant to the Law, that is: deposit of not less than twenty percent (20%) of the taxes allocated to the Agency pursuant to Section 33670 of the Redevelopment Law.

Tax Covenants Relating to the Bonds. The Agency will assure that the proceeds of the Bonds are so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code. The Agency will not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code. The Agency will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code. The Agency shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Continuing Disclosure. The Agency covenants in the Indenture to comply with and carry out all of the provisions of the applicable Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with a Continuing Disclosure Certificate will not be an event of default thereunder. However, any Participating Underwriter or any holder or beneficial owner of the bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Agency to comply with its obligations under this covenant.

Amendment of Indenture

The Indenture and the rights and obligation of the Agency and of the Owners may be modified or amended at any time by a supplemental indenture with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then outstanding delivered to the Trustee. No such modification or amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premiums (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.

The Indenture and the rights and obligation of the Agency and of the Owners may also be modified or amended at any time by a supplemental indenture which shall become binding upon adoption, without the consent of any Owners, to the extent permitted by law, but only for any one or more of the following purposes:

(a) to add additional covenants and agreements of the Agency or to limit or surrender any rights or power reserved to or conferred upon the 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 the Indenture, or in any other respect whatsoever as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel;

(c) to provide for the issuance of Parity Debt subject to and in accordance with the provisions of the Indenture; or

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds.

Events of Default and Remedies

Events of Default. The following events constitute events of default under the Indenture:

(a) if default shall be made by the Agency in the due and punctual payment of the principal of or interest or redemption premium (if any) on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in this Indenture or in the Bonds 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 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 Agency the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure will not constitute an event of default if corrective action is instituted by the Agency within such 60 day period and the Agency thereafter diligently and in good faith cures such failure in a reasonable period of time; or

(c) If the 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 Agency or of the whole or any substantial part of its property.

Remedies. Upon the occurrence and during the continuance of any Event of Default, the Trustee may, and if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds at the time outstanding, the Trustee shall, (a) declare the principal of all of the Bonds, and the interest accrued thereon, to be due and payable immediately, will become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) exercise any other remedies available to the Trustee and the Owners in law or at equity.

Immediately upon becoming aware of the occurrence of an Event of Default, the Trustee is required to give notice of such Event of Default to the Agency by telephone promptly confirmed in writing. Such notice is also required to state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners in the same manner as provided for notices of redemption of the Bonds, which is required to include the statement that interest on the Bonds will cease to accrue from and after the date, if any, on which the Trustee 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).

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

Application of Funds Upon Acceleration. If an Event of Default has occurred and is continuing, all Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration and all sums thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

(a) To the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee; and

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

Limitation on Owners' Right to Sue. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture, unless (a) such Owner has 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 have requested the Trustee in writing to exercise its powers under the Indenture granted or to institute such action, suit or proceeding its own name; (c) said Owners 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 has refused or failed to comply with such request for a period of sixty (60) days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee.

Defeasance of Bonds

The Agency may pay and discharge the indebtedness on any Bonds in any one or more of the following ways:

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

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

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

and, if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption have been duly given or provision satisfactory to the Trustee have been made for the giving of such notice, then, at the election of the Agency and notwithstanding that any Bonds have not been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Agency under the Indenture with respect to such Bonds, will cease and terminate, except only the obligation of the Agency under the Indenture, the obligation of the Trustee to transfer and exchange Bonds under the Indenture, the obligation of the Agency to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and the obligation of the Agency to compensate and indemnify the Trustee pursuant to the Indenture. Notice of such election shall be filed with the Trustee. In the event the Agency shall, pursuant to the foregoing 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 Agency all such instruments as may be necessary or desirable to evidence such discharge, including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Agency has determined to pay and discharge in part.

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 shall be paid over to the Agency.

APPENDIX B
AUDITED FINANCIAL STATEMENTS
OF THE REDEVELOPMENT AGENCY OF THE CITY OF MERCED
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

[THIS PAGE INTENTIONALLY LEFT BLANK]

Redevelopment Agency of the City of Merced

Merced, California

Basic Financial Statements and Independent Auditors' Reports

For the year ended June 30, 2008

C&L
Caporicci & Larson
Certified Public Accountants

This page intentionally left blank.

Redevelopment Agency of the City of Merced
Basic Financial Statements
For the year ended June 30, 2008

Table of Contents

Table of Contents, Continued

CITY OF MERCED

"Gateway to Yosemite"

December 15, 2008

Chairperson, Vice Chairperson and
Commissioners of the Redevelopment Agency
of the City of Merced:

The Basic Financial Statement of the Redevelopment Agency of the City of Merced (Agency) for the fiscal year ending June 30, 2008 is hereby submitted in accordance with the Health and Safety Code of the State of California. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Caporicci & Larson, Certified Public Accountants, have audited the Agency's financial statements. The auditors have issued an unqualified ("clean") opinion on the Redevelopment Agency of the City of Merced's financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

The basic financial statement is presented in three sections: introductory, financial, and statistical. The introductory section is intended to acquaint the reader with the organizational structure of the Agency, the nature and scope of the services it provides, and the specifics of its legal operating environment. The introductory section includes this transmittal letter, the Agency's organizational chart, and a list of the Agency's elected and administrative officials. The financial section is prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34) requirements by including the Independent Auditors Report, the Management Discussion and Analysis and the basic financial statements. The required supplementary information includes the combining and individual fund financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

678 West 18th Street • Merced, California 95340

REPORTING ENTITY

The Redevelopment Agency was created in 1957 by the City of Merced in order to bring new life to Central Merced.

At that time, community leaders were concerned about the deterioration of the downtown and freeway areas, and saw California's Redevelopment Law as a way to aid in revitalizing the central part of the community.

In 1960, the Agency adopted its first Redevelopment Plan, which dealt with a six-square block area, Project Area #1. Project Area # 1 is now inactive. In 1974, a second, much larger, area was created with a second Redevelopment Plan, Project Area #2. In July 1996, a third area was created with a third Redevelopment Plan, Gateways Project Area. This project area encompasses 1,745 acres of south and southeast Merced. The Gateways Project Area Plan was amended in July 2005. The amendment added an additional 1,240 acres to the Area.

Throughout its history, the Agency has continued to use California Redevelopment Law to eliminate blight and improve the downtown and freeway areas.

This law, adopted in 1945, furnishes cities and counties with a powerful tool to revive areas in need of help. Redevelopment Agencies may acquire property, build public improvements, sell or lease property, and assist in private development, among other things. In Merced, the Agency has done all these things and played a vital role in keeping Central Merced active.

ECONOMIC CONDITION AND OUTLOOK

The City of Merced is located in the Central Valley of California. The City is situated 110 miles southeast of San Francisco and 310 miles northwest of Los Angeles. The City has a population of approximately 80,000 and serves as the county seat. Merced is located on Highway 99, the dominant north-south freeway in California, and is served also by Highways 140 and 59. Two railroads, Union Pacific and Burlington Northern Santa Fe, have main lines that pass through the City.

Merced serves as the region's trade center. The economy has been based upon traditional industries such as food processing and manufacturing but with increasing diversification and expansion in commercial services. A portion of a new 86,000 square foot neighborhood shopping center in southeast Merced, The Playa Merced, has been constructed. Phase one of the shopping center, included a Rancho San Miguel grocery store, which opened in May 2007 and a Longs Drug store, which opened on September 1, 2007. Other commercial investments include a drive-thru Starbucks and Subway Sandwiches at the Highway 99 and Childs Avenue Interchange. The construction of a Hampton Inn and Suites on Parsons Avenue just north of Highway 99 was completed. Construction began on a Holiday Inn Express on South Parsons Avenue.

New retailers recently opening at the Merced Marketplace include Country Waffle, Port of Subs, and Great Clips for Hair.

Merced's industrial base includes printing, fiberglass boat building, warehousing and distribution, and plastic and packaging industries. Expansion of local firms has continued, with a few new companies entering the area. Scholle Corporation expanded its line production, and Quebecor added a new press. ServiceMaster completed a two-facility expansion in the Airport Industrial Park and four new companies, Sensient Dehydrated Flavors, Universal Service Recycling, Certified Laboratories of California, and Merced Faculty Associates Billing Department, came to Merced.

Downtown revitalization continued with nearly $3 million in private investment completed and new projects under construction within the City's Downtown Core. Restoration of the commercial and retail spaces attached to the historic Merced Theatre are complete. Private investment in Downtown Merced continues with the rehabilitation of the Maaco and Carpenter Printing buildings. The University Plaza has been expanded, and a new commercial facility was constructed for Flooring Liquidators. A new Downtown Strategy was adopted in December 2007 that included framework to maintain a vibrant downtown by adding entertainment destinations and residential neighborhoods to the existing business core.

University of California Merced (UC Merced) is now in it's third year with an enrollment of approximately 1,800 students. UC Merced is designated as the research university for the 21st Century. UC Merced is planning a research-based medical school that is estimated to open in 2013. Campus Parkway, a planned four-lane expressway, will eventually connect the interchange on Highway 99 at Mission Avenue to Yosemite Avenue and will run to the UC Merced campus.

Despite the downturn in the national economy, local indicators such as increasing employment opportunities and investments in capital improvement projects, point out the City of Merced is headed for long-term economic development and community prosperity.

CURRENT ACCOMPLISHMENTS

Key accomplishments for the 2007-08 fiscal year are highlighted as follows:

- The construction of a Hampton Inn and Suites on Parsons Avenue just north of Highway 99 was completed.

- Construction began on a Holiday Inn Express on South Parsons Avenue.

- The Merced Theatre project included plans for renovation of the historic Merced Theatre, ten residential units and commercial space. Improvements were completed on the residential units and commercial space and eight out of the ten residential units were leased. The project was awarded a $1.93 million grant for restoration of the historic Merced Theatre.

- The Martin Luther King Jr. Way Beautification project was completed in September 2007. The improvements included: partial road reconstruction, installation of medians, signalization, landscaping, and installation of decorative streetlights.

- The Merced Center project was started. This project included a parking garage, Merced College Business Resource Center building and hotel. The parking garage was completed and is open for use with 335 parking spaces and 10,000 square feet of available retail space. The Merced College Business Resource Center building was completed and classes are now being held in the new building. Merced's first green hotel, and 75,000 square feet of office space was in the planning stage.

- A Longs Drug store opened on September 1, 2007 in the new The Playa Merced Shopping Center.

FINANCIAL INFORMATION

Internal Controls

Management of the Agency is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Agency are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. In developing and evaluating the Agency's accounting system, consideration is given to the adequacy of internal accounting controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; (2) the accuracy and reliability of financial records for preparing financial statements and maintaining accountability for assets; and, (3) the adherence to prescribed managerial policy. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The objective of the Agency's budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Agency Board. All funds have a legally adopted budget. The level of budgetary control, at which expenditures cannot legally exceed the budgeted amount, is at the fund level. This means that expenditures cannot legally exceed the amount appropriated by the Agency Board.

The Agency also maintains encumbrance accounting as another method for accomplishing budgetary control over the funds. A commitment for an expenditure is earmarked for its use and funds become unavailable. Unencumbered amounts lapse at fiscal year end. Encumbered amounts at year-end are rolled over and become part of the next year's budget.

The Agency continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

Cash Management

Cash temporarily idle during the year was invested in Certificate of Deposits, Government Obligations, Mutual Funds and the State Treasurer's Investment Pool. The maturities of the investments generally range from 1 month to 12 months, with the average maturity being 97 days. The average yield on investments was 2.59 percent.

The investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, all of the investments held by the government at June 30, 2008 are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board.

Risk Management

The Agency participates in the City's risk management program. During fiscal year 1978, the City established two risk management funds, the Workers' Compensation Insurance Fund and the Liability Insurance Fund (both internal service funds) to account for and finance its uninsured risks of loss, with the exception of the Property and Airport insurance, which is fully insured and accounted for in the Liability Insurance Fund. Under this program, the Workers' Compensation Insurance Fund provides coverage for up to a maximum of $250,000 for each workers' compensation claim. The City purchases commercial insurance for claims in excess of the coverage provided in the fund. The City is a member of the Central

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the cooperation and dedicated services of the staff of the Finance Department and I thank them all for their effort. I would like to express appreciation to Caporicci & Larson, Certified Public Accountants, the independent auditors, who assisted and contributed to the preparation of this basic financial statement.

I would also like to thank the Chairperson, Vice Chairperson and Commissioners of the Redevelopment Agency for their ongoing interest and support in conducting the financial operations of the Agency in a sound and progressive manner.

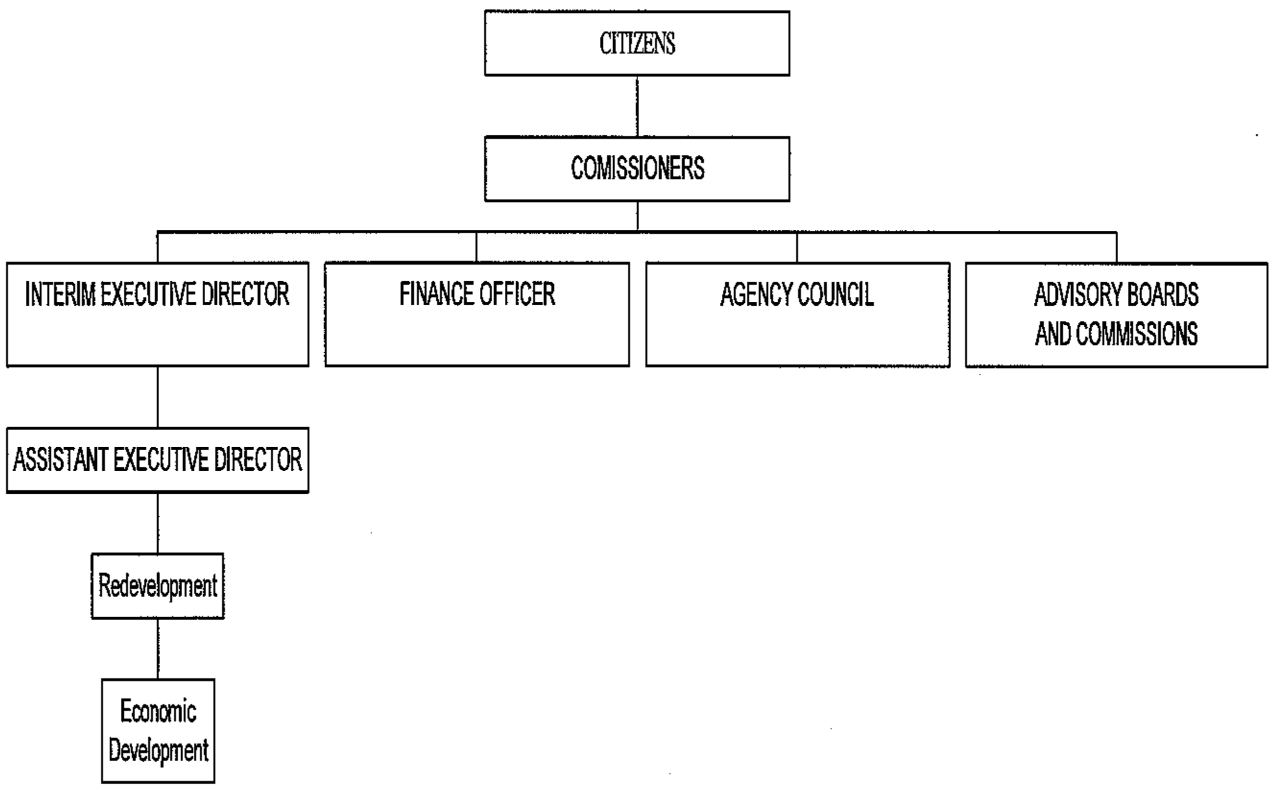
Respectfully submitted,

Bradley R Grant

Bradley R. Grant
Finance Officer

This page intentionally left blank.

Redevelopment Agency of The City of Merced
Organizational Chart
June 30, 2008



Redevelopment Agency of The City of Merced
Responsible Officials
June 30, 2008

Chairperson	**Ellie Wooten**
Vice Chairperson	**John Carlisle**
Commissioner	**Joseph Cortez**
Commissioner	**Michele Gabriault-Acosta**
Commissioner	**Noah Lor**
Commissioner	**James Sanders**
Commissioner	**William Spriggs**
Interim Executive Director	**James G. Marshall**
Assistant Executive Director	**William Cahill**
Agency Counsel	**Gregory Diaz**
Finance Officer	**Bradley R. Grant**

C&L
Caporicci & Larson
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Commissioners
of the Redevelopment Agency of the City of Merced
Merced, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Merced (Agency), a component unit of the City of Merced, California (City), as of and for the year ended June 30, 2008, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Subsequent to the basic financial statements date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the City has not been informed and is not aware of any investment losses. Accordingly, such investment loses, if any, have not been reflected in the accompanying basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency as of June 30, 2008, and the respective changes in financial position for the years then ended in conformity with generally accepted accounting principles in the United States.
As described in Note 1 to the basic financial statements, the County adopted the following Statements of the Governmental Accounting Standards Board:

- No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*

Toll Free Ph: (877) 862-2200 Toll Free Fax: (866) 436-0927

Oakland
180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County
9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
4858 Mercury, Suite 106
San Diego, California 92111

To the Commissioners
of the Redevelopment Agency of the City of Merced
Merced, California
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary information, and other information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Caporicci & Larson

Oakland, California
December 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Redevelopment Agency of the City of Merced (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the Letter of Transmittal, which can be found in the introductory section of this report and the Agency's Basic Financial Statements, which follows this discussion.

FINANCIAL HIGHLIGHTS

- The Agency's revenue from tax increment was $9 million. This is an increase of 27% over the prior year.
- $7.7 million was spent on capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements and 3) notes to the basic financial statements. This report also contains required supplementary information and other supplementary information.

Government-wide Financial Statements-The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances.

While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the government as a whole or major individual funds (within the fund financial statements). Major funds are those whose revenues, expenditures or expenses, assets, or liabilities are at least ten percent of the corresponding totals for all governmental funds and at least five percent of the aggregate amount for all governmental funds for the same item. The General Fund is always a major fund and any other governmental fund may be reported as a major fund if the government believes that fund is particularly important to financial statement users.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and compensated absences).

Both of the government-wide financial statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include general government and capital outlay. The Agency has no business-type activities.

Fund Financial Statements-A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds-Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains nine individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for major funds. The General Fund, Project Area 2 Low & Moderate Income Housing Special Revenue Fund, Project Area 2 Debt Service Fund, Gateways Debt Service Fund and the Project Area 2 Capital Improvement Capital Projects Fund are considered to be major funds. Data from the other four funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Agency adopts an annual appropriated budget for all its funds. Budgetary comparison has been provided in the Required Supplementary Information for the General Fund and the Major Special Revenue Funds to demonstrate compliance with the budget.

Fiduciary Funds-Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Agency's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to Basic Financial Statements-The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information-In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Agency's budgetary control and accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by $23.8 million. The 2007 Summary of Net Assets was restated to combine a negative $6.8 million of "Invested in capital assets, net of debt" with the unrestricted net assets. The negative amount was due to long-term debt financed capital assets transferred to the City of Merced.

Summary of Net Assets

	2008	2007*
Current and other assets	$ 30,257,542	$ 33,877,105
Capital assets	23,674,883	19,412,820
Total assets	53,932,425	53,289,925
Long-term liabilities	26,783,132	28,859,840
Other liabilities	3,339,687	4,647,685
Total liabilities	30,122,819	33,507,525
Net assets:		
Invested in capital assets, net of debt	-	-
Restricted	13,053,490	13,605,646
Unrestricted	10,756,116	6,176,754
Total net assets	$ 23,809,606	$ 19,782,400

* restated

Analysis of the Agency's Operations- The following table provides a summary of the Agency's operations for the year ended June 30, 2008.

Statement of Activities

	2008	2007
Revenues		
Program revenues:		
Charges for services	$ 530,414	$ 1,207,496
Operating grants and contributions	836,721	818,399
Capital grants and contributions	288,065	-
General revenues:		
Property taxes	9,007,647	7,082,383
Transfers	441,504	709,187
Other	208,603	1,300,496
Total revenues	11,312,954	11,117,961
Expenses		
Governmental activities:		
General government	6,328,389	3,940,871
Interest on long-term debt	957,359	1,060,431
Total expenses	7,285,748	5,001,302
Increase in net assets	$ 4,027,206	$ 6,116,659

The Agency's total revenues and transfers were $11.3 million. Tax increment revenue increased by 27% and provided 80% of total revenue received during the year. The increase in tax increment was due to the increase in property values and the receipt of tax increment for the initial two years of the Gateways Project Area Amendment #2.

The Agency's expenses for the year totaled $7.2 million. Expenses from general government activities totaled $6.3 million, which was 87% of total expenses.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds-The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2008, the Agency's governmental funds reported a combined ending fund balance of $21.1 million and a decrease in fund balance of $2.1 million. The General Fund increased by $264,414 due to current revenues and transfers in exceeding expenditures. The Project Area 2 Low and Moderate Income Housing Special Revenue Fund increased by $1.4 million due to the transfers in of fixed assets held for resale. The Project Area 2 Debt Service Fund decreased by $803,703 due to the use of accumulated funds for transfers out to fund capital projects. The Gateways Debt Service Fund increased by $532,332 due to growth in tax increment. The Project Area 2 Capital Improvement Fund decreased by $4.2 million due to using accumulated funds for capital outlay.

BUDGETARY HIGHLIGHTS

During the fiscal year the Agency's Board approved budgetary revisions for supplemental appropriations, which increased appropriations in individual funds and transfers between funds.

The difference between the original budget and the final budget of the governmental funds was an increase of $3.3 million. 78% of the increase was attributable to capital projects. Tax increment, debt proceeds and transfers-in funded the supplemental appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets-The Agency's investment in capital assets as of June 30, 2008, was $23.6 million, net of depreciation. This investment in capital assets includes land and improvements, construction in progress, buildings and structures, machinery and equipment and improvements other than buildings, structures, land and improvements.

Capital Assets

	2008	2007
Capital assets nondepreciable:		
Land and improvements	$ 4,248,035	$ 4,421,612
Construction in progress	14,096,829	10,473,877
Other capital assets:		
Building and structures	1,627,390	1,627,390
Machinery and equipment	2,918	2,918
Improvements other than buildings, structures and land improvements	10,739,221	9,370,916
Less accumulated depreciation	(7,039,510)	(6,483,893)
Total	$ 23,674,883	$ 19,412,820

The significant change to capital assets during the fiscal year included the following:

- Construction costs of $5.39 million for the parking garage at the Merced Center.
- Construction costs of $1.2 million for roadway, sidewalks, signals, streetlights, and landscaping reconstruction on Martin Luther King Way.
- Right of way was purchased for $963,000 for the Highway 59 widening.

Additional information on the Agency's capital assets can be found in the Notes to the Basic Financial Statements.

Long-term debt-At the end of the current fiscal year, the Agency had $28.8 million in outstanding debt consisting of tax allocation bonds, loans payable, participation and development agreements and loan guarantees payable. All of the debt was secured by specific revenue sources.

Outstanding Debt

	2008	2007
Tax allocation bonds payable	$24,572,825	$26,162,825
Participation and development agreements	75,000	175,000
Loans payable	3,251,326	3,466,653
Loan guarantee	960,688	1,095,961
Total	$28,859,839	$30,900,439

The Agency's total debt decreased by $2 million or by 6.60%, which was due to scheduled principal payments.

Additional information of the Agency's long-term debt can be found in Notes to Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- A financing team is working on a Gateways Project Area bond issue for fiscal year 2008-09. Eligible projects have been identified for both public improvements and low-cost housing.
- At the time the fiscal year 2008-09 budget was adopted it was unclear what impacts the State of California budget might have on the Agency. Adjustments may be necessary once the State budget is adopted.
- Merced County has reassessed property values downward by at least 5% for the 2008-09 tax roll.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, Redevelopment Agency of the City of Merced, 678 West 18th Street, Merced, CA, 95340.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Redevelopment Agency of the City of Merced
Statement of Net Assets
June 30, 2008

	Governmental Activities
ASSETS	
Current assets:	
Cash, cash equivalents and investments	$ 9,470,785
Cash held by fiscal agent	2,430,024
Accounts receivable	5,574
Interest receivable	551,125
Due from other governments	2,336,302
Land held for resale	3,259,866
Total current assets	18,053,676
Noncurrent assets:	
Notes receivable	11,144,968
Loan guarantee receivable	966,898
Condemnation Deposit	92,000
Capital assets:	
Nondepreciable	18,344,864
Depreciable, net of accumulated depreciation	5,330,019
Total capital assets, net	23,674,883
Total noncurrent assets	35,878,749
Total assets	53,932,425
LIABILITIES	
Current liabilities:	
Accounts payable	108,154
Interest payable	160,116
Payroll liabilities	14,090
Deposits	19,000
Advances from the City of Merced	961,620
Long-term debt, due within one year	2,076,707
Total current liabilities	3,339,687
Noncurrent liabilities:	
Long-term debt, due in more than one year	26,783,132
Total noncurrent liabilities	26,783,132
Total liabilities	30,122,819
NET ASSETS	
Restricted for:	
Debt service	5,438,645
Capital projects	7,563,742
Special projects and programs	51,103
Total restricted	13,053,490
Unrestricted	10,756,116
Total net assets	$ 23,809,606

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Merced
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2008

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities
Governmental activities:						
General government	$ 6,328,389	$ 530,414	$ 836,721	$ 288,065	$ 1,655,200	$ (4,673,189)
Interest on long-term debt	957,359					(957,359)
Total governmental activities	$ 7,285,748	$ 530,414	$ 836,721	$ 288,065	$ 1,655,200	(5,630,548)

General revenues and transfers:	
Taxes:	
Property	9,007,647
Interest and investment earnings	202,246
Miscellaneous	6,357
Transfers from City of Merced	474,751
Transfers to City of Merced	(33,247)
Total general revenues and transfers	9,657,754
Changes in net assets	4,027,206
Net Assets:	
Beginning of year	19,782,400
End of year	$ 23,809,606

See accompanying Notes to Basic Financial Statements.

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

Redevelopment Agency of the City of Merced
Balance Sheet
Governmental Funds
June 30, 2008

	Major Funds				
	General	Project Area 2 Low and Moderate Income Housing Fund Special Revenue	Project Area 2 Debt Service	Gateways Debt Service	Project Area 2 Capital Improvement Fund Capital Projects
ASSETS					
Cash and cash equivalents	$ 501,845	$ 128,738	$ 1,303,629	$ 357,851	$ 2,841,147
Cash held by fiscal agent			2,254,912	175,112	
Accounts receivable		537	5,037		
Interest receivable	2,329	4,417	6,047	509,434	13,183
Due from other governments			1,140,658	519,997	675,647
Due from other funds		228,132			
Land held for resale	1,389,230	1,356,379			
Loan guarantee receivable			364,488	602,410	
Condemnation Deposit					
Notes receivable	3,567,919	2,433,375		4,000,000	
Total assets	$ 5,461,323	$ 4,151,578	$ 5,074,771	$ 6,164,804	$ 3,529,977
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 4,437	$	$	$	$ 103,717
Payroll liabilities	14,090				
Deposits	10,000	9,000			
Deferred revenue	80,502	2,281,327		4,507,179	
Due to other funds			228,132	103,999	
Advances from City of Merced			900,000	61,620	
Total liabilities	109,029	2,290,327	1,128,132	4,672,798	103,717
Fund Balances:					
Reserved	4,927,750	1,136,294	3,946,639	1,492,006	1,573,324
Unreserved, undesignated reported in :					
General Fund	424,544				
Special revenue funds		724,957			
Capital project funds					1,852,936
Total unreserved, undesignated	424,544	724,957			1,852,936
Total fund balances	5,352,294	1,861,251	3,946,639	1,492,006	3,426,260
Total liabilities and fund balances	$ 5,461,323	$ 4,151,578	$ 5,074,771	$ 6,164,804	$ 3,529,977

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental Funds	Total
$ 4,337,575	$ 9,470,785
	2,430,024
	5,574
15,715	551,125
	2,336,302
103,999	332,131
514,257	3,259,866
	966,898
92,000	92,000
1,143,674	11,144,968
$ 6,207,220	$ 30,589,673

$	$ 108,154
	14,090
	19,000
1,091,151	7,960,159
	332,131
	961,620
1,091,151	9,395,154
1,933,070	15,009,083
	424,544
92,196	817,153
3,090,803	4,943,739
3,182,999	6,185,436
5,116,069	21,194,519
$ 6,207,220	$ 30,589,673

This page intentionally left blank.

Redevelopment Agency of the City of Merced
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets
June 30, 2008

Total Fund Balances - Total Governmental Funds	$	21,194,519
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Capital assets used in Governmental Activities are not current financial resources and therefore are not reported in the governmental funds.		
Non-depreciable		18,344,864
Depreciable, net of accumulated depreciation		5,330,019
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Long-term debt due within one year		(2,076,707)
Long-term debt due in more than one year		(26,783,132)
Deferred revenues recorded in the governmental funds resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements.		7,960,159
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in the governmental funds. The following amount represents interest payable at the end of the year.		(160,116)
Net Assets of Governmental Activities	$	23,809,606

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Merced
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2008

	Major Funds				
	General	Project Area 2 Low and Moderate Income Housing Fund Special Revenue	Project Area 2 Debt Service	Gateways Debt Service	Project Area 2 Capital Improvement Fund Capital Projects
REVENUES:					
Taxes	$	$	$ 5,635,153	$ 3,372,494	$
Intergovernmental					548,656
Service charges			192,762	19,320	22,075
Rental income	62,300				
Investment and interest income	45,036	31,604	103,056	21,840	86,585
Repayment of note	139,721				
Other	176,480	86,256		6,211	14,445
Total revenues	423,537	117,860	5,930,971	3,419,865	671,761
EXPENDITURES:					
Current operating:					
General government	920,011	198,654	684,286	667,533	
Administrative shared expenditures	214,962	151,472			
Total current operating	1,134,973	350,126	684,286	667,533	
Capital outlay	449				7,512,454
Debt service:					
Principal			1,705,748	319,525	
Interest			668,751	292,578	
Total expenditures	1,135,422	350,126	3,058,785	1,279,636	7,512,454
REVENUES OVER (UNDER) EXPENDITURES	(711,885)	(232,266)	2,872,186	2,140,229	(6,840,693)
OTHER FINANCING SOURCES (USES):					
Capital contributions					
Transfers in	1,047,772	2,464,360			2,457,042
Transfers out	(58,184)	(822,757)	(3,675,889)	(1,962,269)	
Transfers from City of Merced				361,330	113,421
Transfers to City of Merced	(13,289)			(6,958)	(10,000)
Total other financing sources (uses)	976,299	1,641,603	(3,675,889)	(1,607,897)	2,560,463
Net change in fund balances	264,414	1,409,337	(803,703)	532,332	(4,280,230)
FUND BALANCES:					
Beginning of year	5,087,880	451,914	4,750,342	959,674	7,706,490
End of year	$ 5,352,294	$ 1,861,251	$ 3,946,639	$ 1,492,006	$ 3,426,260

See accompanying Notes to Basic Financial Statements.

Non-Major Governmental Funds	Total
$	$ 9,007,647
	548,656
	234,157
	62,300
138,814	426,935
	139,721
	283,392
138,814	10,702,808
19,651	2,490,135
	366,434
19,651	2,856,569
220,979	7,733,882
15,327	2,040,600
4,180	965,509
260,137	13,596,560
(121,323)	(2,893,752)
288,065	288,065
3,328,324	9,297,498
(2,778,399)	(9,297,498)
	474,751
(3,000)	(33,247)
834,990	729,569
713,667	(2,164,183)
4,402,402	23,358,702
$ 5,116,069	$ 21,194,519

Redevelopment Agency of the City of Merced

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets

For the year ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	$	(2,164,183)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital asset acquisitions as part of capital outlay expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		8,236,485
Loss on disposal of capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, the loss was not reported as expenditures in the governmental funds.		(3,418,805)
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds.		(555,617)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal payment		2,040,600
Revenues that did not meet the criteria for accrual were recorded as deferred revenues in the government funds. In the Government-Wide, these amounts were recorded as revenues.		(119,424)
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in the governmental funds. The following amount represents the change in accrued interest from the prior year.		8,150
Change in Net Assets of Governmental Activities	$	4,027,206

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Redevelopment Agency of the City of Merced
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

ASSETS		
Cash, cash equivalents, and investments	$	198,473
Deposits		75,907
Total assets	$	274,380
LIABILITIES		
Deposits	$	274,380
Total liabilities	$	274,380

See accompanying Notes to Basic Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency (Agency) of the City of Merced, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. *Reporting Entity*

The Agency, a blended component unit of the City, was created in 1957 by a City ordinance pursuant to the California Community Redevelopment Law. The members of the City Council serve as the governing board for the Agency. All powers of the Agency are vested in the governing board. The Agency is a separate public body and exercises governmental functions in planning and carrying out redevelopment projects. The Agency can facilitate the development of on and off-site improvements, acquire and sell property, construct public buildings, and provide services to the project area. The Agency has broad general powers to fulfill the objectives contained in the Redevelopment Plan.

The Comprehensive Annual Financial Report of the City includes the financial transactions of the Agency and can be obtained from the Finance Department, City of Merced, 678 West 18th Street, Merced, California.

As a blended component unit, the Agency, is a legally separate organization for which the primary government, the City, is financially accountable; and which the nature and significance of the Agency's relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

<u>Project Area 2</u>

The Agency established a Project Area Committee (Committee) by a resolution dated February 1, 1974. The Committee advises the governing board of the Agency on redevelopment issues relating to the project area.

The City Council adopted Ordinance Number 1118, dated August 5, 1974, which established a Redevelopment Plan for the Merced Redevelopment Area Project Number 2. The area encompassed by Project Area Number 2 is bounded on the north by 20th Street, east by D Street, south by Highway 99, and west by Highway 59.

<u>Gateways Project Area</u>

On January 16, 1996, the City Council adopted Resolution Number 96-5 establishing a procedure for the formation of a Project Area Committee for the Gateways Redevelopment Project Area. The City held an election on February 22, 1996, to establish committee members for the Project Area Committee. On March 18, 1996, the City Council adopted a motion finding that all adopted procedures of the City were followed in the election, certifying the results of the Project Area Committee election, and authorized the City Clerk to administer the oaths of office to the Project Area Committee members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

Gateways Project Area, Continued

The City Council adopted Ordinance Number 1939, dated July 15, 1996, which established a Redevelopment Plan for the Gateways Redevelopment Project Area. The area generally encompassed by the Gateways Project is bounded on the north by Union Pacific Railroad tracks, east by the City limits near Joe Herb Park, south by Gerard Avenue, and west by approximately 60 acres in the Airport Industrial Park near West Street.

B. Government-Wide and Fund Financial Statements

The Government-Wide Financial Statements, the Statement of Net Assets and the Statement of Activities, report information on all of the nonfiduciary activities of the Agency.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by Program Revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program Revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among Program Revenues are reported instead as General Revenues.

Separate financial statements are provided for Governmental Funds and Fiduciary Funds, even though the latter are excluded from the Government-Wide Financial Statements. Major individual governmental funds are reported as separate columns in the Fund Financial Statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency's Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded in the accounting period in which the related liability is incurred.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes attach as an enforceable lien on property. Secured and unsecured property taxes are levied on July 1. The unsecured and secured property tax lien date is January 1. Unsecured property taxes become delinquent on August 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued

Secured property taxes are payable in two installments, on November 1 and February 1 of each year, and become delinquent on December 10 and April 10, respectively. The County of Merced, California (County) bills and collects the property taxes and remits them to the Agency according to a payment schedule established by the County. Agency property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The County is permitted by State law to levy property taxes at 1% of full market value (at time of purchase) and can increase property assessed value no more than 2% per year.

The Agency reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources applicable to the General Government Operations of the Agency that are not required to be accounted for in another fund.

The *Project Area 2 Low and Moderate Income Housing Special Revenue Fund* accounts for Project Area 2 Housing revenue sources. This revenue includes 20% Housing Set-a-Side loan repayments.

The *Project Area 2 Debt Service Fund* accounts for the collection of tax increment revenue and the disbursement of funds for payment of debt service, project costs, administration, and 20% Housing Set-a-Side.

The *Gateways Debt Service Fund* accounts for the collection of tax increment and the disbursement of funds for payment of debt service, project costs, administration, and 20% Housing Set-a-Side.

The *Project Area 2 Capital Improvement Capital Projects Fund* accounts for the financial resources used in the acquisition and construction of major capital facilities.

The Fiduciary Fund reported by the Agency is an Agency Fund that accounts for assets held by the Agency as an agent on behalf of others, such as individuals, private organizations and other governmental units.

As a general rule, the effect of interfund activity has been eliminated from the Government-Wide Financial Statements. All internal balances in the Statement of Net Assets have been eliminated.

Amounts reported as Program Revenues include charges to customers for services, operating grants and contributions, and capital grants and contributions. All taxes and internally dedicated resources are reported as General Revenues.

D. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Cash, Cash Equivalents, and Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

F. Interfund Balances/Internal Balances

Advances to and advances from other funds represent interfund loans in the Fund Financial Statements. Advances between funds are offset by a fund balance reservation or by deferred revenue in the applicable Governmental Funds to indicate that they are not expendable available financial resources. Any unpaid interest due to lack of funds in the borrowing fund increases the principal owed and is reported in the lending fund as deferred revenue. All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

G. Land Held for Resale

Land held for resale consists of land and project costs relating to property acquired or constructed which will be sold under terms of disposition and development agreements between the Agency and developers. The land held for resale is recorded at the lower of cost or estimated net realizable value. Reported amounts are fully reserved, which indicates that they do not constitute available spendable resources.

H. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. Agency policy has set the capitalization threshold for reporting capital assets at $500. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Building and structures	20 years
Improvements other than buildings	15 years
Machinery and Equipment	5 years
Infrastructures	10-40 years

In June 1999, the GASB issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local government's basic financial statements. In accordance with GASB Statement No. 34, the Agency has included all infrastructure assets into the current basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets, Continued

The Agency defines infrastructure assets as the basic physical assets that allow the Agency to function. The assets include: highways, bridges, sidewalks, drainage systems, lighting systems, streets, fences, retaining walls, and pavement.

I. Long-Term Liabilities

In the Government-Wide Financial Statements the long-term debt and other financed obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as expenditures.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as expenditures.

J. Net Assets and Fund Equity

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that was used as the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

Fund Equity - Reservations and designations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. *Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosed contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

L. *New Pronouncements*

In 2008, the City adopted new accounting standards in order to conform to the following GASB Statement:

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* - This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues.

2. CASH AND INVESTMENTS

The Agency maintains a cash and investment pool with the City, which includes cash balances and authorized investments of all Agency funds, which the Finance Officer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on month-end cash and investment balances in these funds.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools,* the Agency's investments are stated at fair value.

The Agency's share of the City's pooled cash and investments and cash with fiscal agent at June 30, 2008, was $9,470,785 and $2,430,024 respectively. The City's Comprehensive Annual Financial Report contains further details regarding cash and investments and can be obtained from the City's Finance Department located at the City of Merced Civic Center.

3. NOTES RECEIVABLE

As of June 30, 2008, the following loans and notes receivable were outstanding:

Redevelopment Deferred Loans Receivable	$	5,221,150
Redevelopment Project Loans Receivable		3,620,443
Redevelopment Housing Loans Receivable		2,303,375
Total	$	11,144,968

3. NOTES RECEIVABLE, Continued

- **Deferred Loans Receivable –** Loans to property owners for projects and housing loans. Repayment is subject to a future event.
- **Redevelopment Project Loans Receivable** – Loans to property owners for acquisition and/or improvement of areas located in the redevelopment areas.
- **Redevelopment Housing Loans Receivable** – Loans to property owners for rehabilitation of housing projects.

Deferred Loans Receivable

Merced Laurel Glen 2000-01 $130,000 non-interest loan. Annual principal payments to be made beginning in the tenth year for twenty years.	$ 130,000
Central Valley Coalition For Affordable Housing 2002-03 $4,000,000 loan to be repaid over a period of twenty years. Payments to begin 30 days after Certificate of Occupancy.	4,000,000
Other Deferred Loans to Property Owners for Housing Loans	1,091,150
Total Redevelopment Deferred Loans Receivable	$ 5,221,150

Redevelopment Project Loans Receivable

County Bank of Merced Revolving Loan Program
The Downtown Commercial Rehabilitation Loan Program was established in 1983 in an effort to further stimulate revitalization, by funding low-interest loans to property owners within redevelopment areas for the purpose of property rehabilitation and improvement.

On March 24, 1984, a contract with the County Bank of Merced was executed to administer the Commercial Rehabilitation Loan Program.

The bank makes eligible loans from its own funds and then transfers from a deposit account an equivalent amount based on the Bank's Prime Rate. The bank is then able to make the rehabilitation loan at a lower interest rates to the eligible business. It should be noted that Agency funds are not loaned and are not at risk through this program. $ 641,510

3. NOTES RECEIVABLE, Continued

Redevelopment Project Loans Receivable, Continued

Steve McNamara 1990-91 $250,000 note bearing interest at 6% per annum for 15 years. Annual interest payments only to be made for the first five years and principal and interest payments to be made during the next ten years. At June 30, 2008 the outstanding balance was due in full. The note is secured with a Deed of Trust.	$ 75,946
Cyril Lawrence 1994-95 $175,228 note bearing interest at 6% per annum for 15 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.	29,743
Liberato and Evelyn Baca 1995-96 $160,000 note bearing interest at 6% per annum for 20 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.	80,502
Kamson, Inc. 1997-98 $360,000 note bearing interest at 6% per annum for 20 years. Monthly principal and interest payments in the amount of $1,995 to be made. The note is secured with a Deed of Trust.	279,459
Christine McFadden 1998-99 $82,642 note bearing interest at 8% per annum for 11 years. Monthly principal and interest payments to be made. This note is secured with a Deed of Trust.	2,134
Christine McFadden 2000-01 $110,560 note bearing interest at 8% per annum for 10 years. The note is secured with a Deed of Trust.	48,016
Lupe De La Cruz 1999-00 $15,544 judgment bearing interest at 7% per annum. Monthly principal and interest payments to be made. The account is secured by a judgment.	14,441
Merced Senior Investors 2001-02 $1,334,346 loan to be repaid from net cash flow no later than May 1 of each year.	998,692
Merced Lofts, LLC 2002-03 $250,000 non-interest loan until certificate of occupancy is issued; after which payments to be made monthly over a period of ten years at 5¾% interest. The balance due after ten years shall be made as a balloon payment.	250,000
Mondo Building, LLC 2002-03 $1,200,000 loan to be repaid from net cash flows no later than May 1 of each year.	1,200,000
Total Redevelopment Project Loans Receivable	$ 3,620,443

3. NOTES RECEIVABLE, Continued

Redevelopment Housing Loans Receivable

Central Valley Coalition for Affordable Housing 1995 $30,000 loan bearing interest at 6% per annum for 20 years. Monthly principal and interest payments to be made. The note is secured with a Deed of Trust.	$ 14,717
Daniel and Ida Hanson 1997-98 $94,902 note bearing interest at 5% per annum with the first payment due January 1, 1998. Monthly interest payments for the first 60 months. Monthly principal and interest payments for the remaining 360 months. The note is secured with a Deed of Trust.	85,032
Central Valley Coalition for Affordable Housing 1998-99 $80,000 loan bearing interest at 5% per annum for 20 years. Monthly principal and interest payments to be made. This note is secured with a Deed of Trust.	52,300
Central Valley Coalition for Affordable Housing 2001-02 $65,000 loan bearing interest at 5% per annum for 20 years. Monthly principal and interest to be made. The note is secured with a deed of Trust.	59,418
Other Redevelopment Loans to Property Owners	2,091,908
Total Redevelopment Housing Loans Receivable	$ 2,303,375

4. DEFERRED REVENUE

Fund Financial Statements

At June 30, 2008, the following deferred revenues were recorded in the Fund Financial Statements because the monies were not available to finance expenditures of the current period. The full amount was recognized as revenues in the Government-Wide Financial Statements.

	General Fund	Low and Moderate Income Housing Fund Special	RDA Gateway Debt Service	Non-Major Funds	Total
Long-term loans receivable	$ 80,502	$ 2,281,327	$ 4,507,179	$ 1,091,151	$ 7,960,159
Total	$ 80,502	$ 2,281,327	$ 4,507,179	$ 1,091,151	$ 7,960,159

5. CAPITAL ASSETS

A. *Government-Wide Financial Statements*

At June 30, 2008, the Agency's capital assets consisted of the following:

	Balance July 1, 2007	Addition	Deletion	Reclassification	Balance June 30, 2008
Non-depreciable Assets:					
Land and improvements	$ 4,421,612	$	$ (173,577)	$	$ 4,248,035
Construction in progress	10,473,877	8,081,704	(1,010,250)	(3,448,502)	14,096,829
Total nondepreciable assets	14,895,489	8,081,704	(1,183,827)	(3,448,502)	18,344,864
Depreciable Assets:					
Buildings and structures	1,627,390				1,627,390
Machinery and equipment	2,918				2,918
Improvements other than buildings, structures and land improvements	9,370,916	154,781	(2,234,978)	3,448,502	10,739,221
Total depreciable assets	11,001,224	154,781	(2,234,978)	3,448,502	12,369,529
Accumulated depreciation:					
Buildings and structures	(823,199)	(81,370)			(904,569)
Machinery and equipment	(2,919)				(2,919)
Improvements other than buildings, structures and land improvements	(5,657,775)	(474,247)			(6,132,022)
Total accumulated depreciation	(6,483,893)	(555,617)			(7,039,510)
Total depreciable assets, net	4,517,331	(400,836)	(2,234,978)	3,448,502	5,330,019
Total governmental activities	$ 19,412,820	$ 7,680,868	$ (3,418,805)	$	$ 23,674,883

Depreciation expense for capital assets of the Governmental activities for the year ended June 30, 2008 was $555,617 which was recorded as an expense for general government activities.

6. LONG-TERM DEBT

A. *Government-Wide Financial Statements*

The Following is a summary of long-term debt transactions of the governmental activities during the fiscal year ended June 30, 2008:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Due in more than one year	Due within one year
Tax Allocation Bonds	$ 26,162,825	$	$ (1,590,000)	$ 24,572,825	$ 22,922,825	$ 1,650,000
Participation and Development Agreements	175,000		(100,000)	75,000		75,000
Loans Payable	3,466,653		(215,327)	3,251,326	3,034,892	216,434
Loan Guarantee	1,095,961		(135,273)	960,688	825,415	135,273
Total	$ 30,900,439	$	$ (2,040,600)	$ 28,859,839	$ 26,783,132	$ 2,076,707

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

1. Tax Allocation Bonds Payable

Tax allocation bonds payable at June 30, 2008, consisted of the following:

1999 $25,000,000 Tax Allocation Bonds, Series A	$ 13,640,000
2001 $2,400,000 Tax Allocation Bonds, Series A	2,190,000
2003 $9,007,825 Tax Allocation Bonds, Series A	8,742,825
Total	$ 24,572,825

1999 $25,000,000 Tax Allocation Bonds, Series A

1999 $25,000,000 Tax Allocation Bonds, Series A, Redevelopment Agency, $1,100,000 to $1,975,000 principal payable annually, interest at 3.50% to 4.75%, payable semi-annually, matures 2015. The tax allocation bonds are secured by property tax increments. The 2003 RDA Project Area 2 Tax Allocation Bonds were issues as a parity debt to the 1999 RDA Project Area 2 Tax Allocation Bonds. Annual principal and interest payments on the 1999 and 2003 RDA Project Area 2 Tax Allocation Bonds were expected to use 68% of tax revenues in 2007-08. The total principal and interest remaining to be paid on the 1999 and 2003 RDA Project Area 2 bonds is $13,640,000 and 8,742,825, respectively. For the current year, total principal and interest paid was $2,213,751 and property tax increment revenue was $5,635,153. The tax allocation bonds used 39% of current year's tax revenue.

The annual debt service requirements for the 1999 $25,000,000 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2009	$ 1,470,000	$ 572,206	$ 2,042,206
2010	1,525,000	511,353	2,036,353
2011	1,590,000	446,510	2,036,510
2012	1,655,000	376,710	2,031,710
2013	1,730,000	301,375	2,031,375
2014-2016	5,670,000	406,262	6,076,262
Total	$ 13,640,000	$ 2,614,416	$ 16,254,416

6. LONG-TERM DEBT, Continued

A. Government-Wide Financial Statements, Continued

1. Tax Allocation Bonds Payable, Continued

2001 $2,400,000 Tax Allocation Bonds, Series A

2001 $2,400,000 Tax Allocation Bonds, Series A, Redevelopment Agency, $40,000 to $80,000 of principal payable annually, interest at 5.00 to 5.60%, payable semi-annually, matures 2031. The tax allocation bonds are secured by property tax increments. Annual principal and interest payments on the 2001 Gateways Tax Allocation Bonds were expected to use 24% of tax revenues in 2007-08. The total principal and interest remaining to be paid on the RDA Gateways Tax Allocation Bonds is $2,190,000. For the current year, principal and interest paid was $168,723 and property tax increment revenue was $3,372,494. The tax allocation bonds used 5% of current year's tax revenue.

The annual debt service requirements for the 2001 $2,400,000 Tax Allocation Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2009	$ 45,000	$ 121,473	$ 166,473
2010	45,000	119,223	164,223
2011	50,000	116,848	166,848
2012	50,000	114,347	164,347
2013	55,000	111,695	166,695
2014-2018	325,000	416,020	741,020
2019-2023	430,000	428,650	858,650
2024-2028	580,000	262,811	842,811
2029-2032	610,000	72,740	682,740
Total	$ 2,190,000	$ 1,763,807	$ 3,953,807

2003 $9,007,825 Tax Allocation Bonds, Series A

2003 $9,007,825 Tax Allocation Bonds, Series A, Redevelopment Agency, consisting of $1,220,000 current interest bonds and $7,522,825 capital appreciation bonds, $130,000 to $1,156,807 of principal payable annually, interest payable annually, matures 2023. The tax allocation bonds are secured by property tax increments. The 2003 RDA Project Area 2 Tax Allocation Bonds were issues as a parity debt to the 1999 RDA Project Area 2 Tax Allocation Bonds. Annual principal and interest payments on the 1999 and 2003 RDA Project Area 2 Tax Allocation Bonds were expected to use 68% of tax revenues in 2007-08. The total principal and interest remaining to be paid on the 1999 and 2003 RDA Project Area 2 bonds is $13,640,000 and 8,742,825, respectively. For the current year, total principal and interest paid was $2,213,751 and property tax increment revenue was $5,635,153. The tax allocation bonds used 39% of current year's tax revenue.

6. LONG-TERM DEBT, Continued

A. *Government-Wide Financial Statements, Continued*

1. *Tax Allocation Bonds Payable, Continued*

2003 $9,007,825 Tax Allocation Bonds, Series A, Continued

The annual debt service requirements for the 2003 $9,007,825 Tax Allocation Bonds are as follows:

	Current Interest Bonds		Capital Appreciation Bonds		
For the Years Ending June 30,	Principal	Interest	Initial Amount	Accreted Interest	Value at Maturity
2009	$ 135,000	$ 36,076	$	$	$
2010	145,000	32,745			
2011	145,000	28,830			
2012	150,000	24,384			
2013	155,000	19,521			
2014-2018	490,000	26,263	1,156,808	953,195	2,110,003
2019-2023			4,832,153	5,717,847	10,550,000
2024			1,533,864	2,686,136	4,220,000
Total	$ 1,220,000	$ 167,819	$ 7,522,825	$ 9,357,178	$ 16,880,003

2. *Participation and Development Agreements*

1997 $800,000 Participation Agreement

1997 $800,000 Participation Agreement between the Agency and a participant for financing of facilities and capital equipment. Assistance ranges from $50,000 to $100,000 beginning in 2001 for 8 years, not to exceed $800,000.

The annual debt service requirements for the 1997 $800,000 Participation Agreement are as follows:

For the Year Ending June 30,	
2009	$ 75,000
Total	$ 75,000

6. LONG-TERM DEBT, Continued

A. *Government-Wide Financial Statements, Continued*

3. *Loans Payable*

Loans payable at June 30, 2008, consisted of the following:

2003 $4,000,000 Loans Payable	$	3,200,000
2003 $129,109 Real Estate Loan Payable		51,326
Total	$	3,251,326

2003 $4,000,000 Loans Payable

2003 $4,000,000 U.S. Department of Housing and Urban Development Section 108 Loan Guarantee Program Variable/Fixed Rate Note. Principal payments are $200,000 annually. Interest is 2% to 6.5% payable semi-annually. The funds were used to assist the Central Valley Coalition for Affordable Housing with a 204 unit multi-family housing development.

The annual debt service requirements for the 2003 $4,000,000 loans payable are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2009	$ 200,000	$ 154,850	$ 354,850
2010	200,000	147,520	347,520
2011	200,000	139,550	339,550
2012	200,000	130,960	330,960
2013	200,000	121,860	321,860
2014-2018	1,000,000	461,810	1,461,810
2019-2023	1,000,000	196,200	1,196,200
2024	200,000	5,690	205,690
Total	$ 3,200,000	$ 1,358,440	$ 4,558,440

2003 $129,109 Real Estate Purchase Agreement

2003 $129,109 Real Estate Purchase Agreement for the purchase of property in a Redevelopment Project Area. Monthly payments are $1,626 for 120 months.

The annual debt service requirements for the 2003 $129,109 Real Estate Purchase Agreement are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2009	$ 16,434	$ 3,072	$ 19,506
2010	17,622	1,884	19,506
2011	17,270	610	17,880
Total	$ 51,326	$ 5,566	$ 56,892

6. LONG-TERM DEBT, Continued

A. *Government-Wide Financial Statements, Continued*

4. *Loan Guarantee*

Loan guarantee at June 30, 2008, consisted of the following:

2001 $789,724 Debt Service Funding Agreement with Developer	$	364,488
2005 $894,300 Debt Service Funding Agreement for Purchase of Property		596,200
Total	$	960,688

2001 $794,724 Debt Service Funding Agreement

2001 $789,724 Debt Service Funding Agreement with a Developer. Developer agrees to make the monthly payments to the Agency for the repayment of its loan with a financial lender. The Redevelopment Agency guarantees the monthly payments to the lender. The Agency has a deposit of $60,748 to be used as a reserve. Payments are $5,062 for 156 months. The balance outstanding at June 30, 2008 was $364,488. An amount equal to the loan payable has been recorded as a loan guarantee receivable from the developer.

The annual debt service requirements for the Loan Guarantee are as follows:

For the Years Ending June 30,		
2009	$	60,748
2010		60,748
2011		60,748
2012		60,748
2013		60,748
2014		60,748
Total	$	364,488

2005 $894,300 Debt Service Funding Agreement

2005 $894,300 Debt Service Funding Agreement with a developer for the purchase of property in a Redevelopment project area. Developer agrees to make the monthly payments to the Agency for the repayment of its loan with a financial lender. The Agency guarantees the monthly payments to the lender. Monthly payments are $6,210.42 for 145 months. The loan does not bear interest and matures in year 2016. The balance outstanding at June 30, 2008 was $596,200. An amount equal to the loan payable has been recorded as a loan guarantee receivable from the developer.

The annual debt service requirements for the 2005 $894,300 Loan Guarantee are as follows:

For the Years Ending June 30,		
2009	$	74,525
2010		74,525
2011		74,525
2012		74,525
2013		74,525
2014-2016		223,575
Total	$	596,200

7. INTERFUND TRANSACTIONS

A. *Fund Financial Statements*

<u>*Due To, Due From*</u>

At June 30, 2008, the Agency had the following short-term interfund receivables and payables:

Due From	Due To: Project Area 2 Debt Service	Due To: Gateway Debt Service	Total
Project Area 2 Low and Moderate Income Housing Special Revenue Fund	$ 228,132	$	$ 228,132
Non-major funds		103,999	103,999
Total	$ 228,132	$ 103,999	$ 332,131

The amount due to special revenue fund represents the 20% housing set aside due from the debt service fund. Current interfund balances arise in the normal course of operations and are expected to be repaid shortly after the end of the fiscal year.

<u>*Transfers*</u>

At June 30, 2008, the Agency had the following transfers:

Transfers Out	Transfers In: General	Major Funds: Project Area 2 Low and Moderate Income Housing Special Revenue	Major Funds: Project Area 2 Capital Improvement Capital Projects	Non-Major Funds	Total
Major Funds:					
General	$	$	$ 58,184	$	$ 58,184
Project Area 2: Low & Mod Income Housing SRF				822,757	822,757
Project Area 2: Debt Service	150,000	1,127,031	2,398,858		3,675,889
Gateway: Debt Service	525,000			1,437,269	1,962,269
Non-Major Funds	372,772	1,337,329		1,068,298	2,778,399
Total	$ 1,047,772	$ 2,464,360	$ 2,457,042	$ 3,328,324	$ 9,297,498

<u>*Advances from the City of Merced*</u>

The Agency was advanced funds from the City as follow:

Gateways Debt Service Fund	$ 900,000
Project Area 2 Debt Service	62,620
Total	$ 962,620

8. RISK MANAGEMENT

The Agency participates in the City's Risk Management Program. All claims are accounted for in the City's General Liability Insurance and Workers' Compensation Insurance Funds. All claims that were probable liabilities that occurred prior to the year-end and that were estimable were recorded in accordance with GASB Statement No. 10.

9. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

As of June 30, 2008 the Agency was a party to various personal injury and other lawsuits which have been denied by the Agency Board. The outcome and eventual liability to the Agency, if any, in these cases is not known at this time. Management estimates that the potential claims against the Agency, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the Agency.

Project Commitments

As of June 30, 2008 the Agency had the following outstanding commitments that exceeded $100,000:

Vendor Name	Outstanding Amount	
Lockwood General Engineering	$	977,850
The Playa Merced, LLC		500,000
Larson, Allen Howard		302,853
Chavez, Chrispin O and Yolanda		184,050
Estate of Julia Chibante		173,850
West Bay Builders Inc		173,694
Kleinfelder Inc		106,557
Total	$	2,418,854

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETARY CONTROL AND ACCOUNTING

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The annual budget adopted by the Agency Board provides for the general operation of the Agency. The annual budget is adopted by the Agency Board in June of each year for all funds. The resolution sets a combined appropriation of the funds for the operation of the Agency.

2. The City Manager is authorized to transfer budgeted amounts between departments and line items to assure adequate and proper standards of service. Budgetary revisions, including supplemental appropriations which increase appropriations in individual funds and transfers between funds, must be approved by the Agency Board. The budgetary level of control is at the fund level. The budgeted figures used in the financial statements are the final amended amounts.

3. The budget is formally integrated into the accounting system and employed as a management control device during the year for all funds.

4. Budgets for the governmental fund types are adopted and recorded on the modified basis of accounting on a basis consistent with GAAP. Budget appropriations lapse at the end of the fiscal year. Supplemental appropriations were adopted by the Agency Board and have been included in the statements of revenues, expenditures, and changes in fund balance - budget to actual. Total supplemental appropriations for the year were $3,306,528.

The accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the General Fund and the Project Area #2 Low and Moderate Income Housing Special Revenue Fund present comparisons of the legally-adopted budget with actual results.

Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end are reported as reservations of fund balance since they represent commitments, which will be honored during the subsequent year. Encumbrances do not represent expenditures or liabilities.

Redevelopment Agency of the City of Merced
Required Supplementary Information, Continued
For the year ended June 30, 2008

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund

	Budget			
	Original	Final	Actual	Variance
REVENUES:				
Rental income	$ 62,300	$ 62,300	$ 62,300	$
Investment and interest income:				
Investment income	200	200	18,257	18,057
Loan interest	49,308	49,308	26,779	(22,529)
Repayment of note	80,058	80,058	139,721	59,663
Other:				
Miscellaneous	567,830	567,830	176,480	(391,350)
Total revenues	759,696	759,696	423,537	(336,159)
EXPENDITURES:				
Current operating:				
General government:				
Contractual services - City of Merced	1,084,086	1,138,584	920,011	218,573
Administrative shared expenditures	208,922	214,962	214,962	
Total current operating	1,293,008	1,353,546	1,134,973	218,573
Capital outlay	500	500	449	51
Total expenditures	1,293,508	1,354,046	1,135,422	218,624
REVENUES OVER (UNDER) EXPENDITURES	(533,812)	(594,350)	(711,885)	(117,535)
OTHER FINANCING SOURCES (USES):				
Transfers in	760,000	760,000	1,047,772	287,772
Transfers out		(58,184)	(58,184)	
Transfers to City of Merced	(13,289)	(13,289)	(13,289)	
Total other financing sources (uses)	746,711	688,527	976,299	287,772
Net change in fund balance	$ 212,899	$ 94,177	264,414	$ 170,237
FUND BALANCE:				
Beginning of year			5,087,880	
End of year			$ 5,352,294	

1. BUDGETARY CONTROL AND ACCOUNTING, Continued

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Project Area 2 Low and Moderate Income Housing Special Revenue Fund

	Budget			
	Original	Final	Actual	Variance
REVENUES:				
Investment and interest income:				
Investment earnings	$ 1,000	$ 1,000	$ 10,887	$ 9,887
Loan interest	19,210	19,210	20,717	1,507
Other:				
Housing set-aside loans	20,180	20,180	42,001	21,821
Miscellaneous	48,000	48,000	44,255	(3,745)
Total revenues	88,390	88,390	117,860	29,470
EXPENDITURES:				
Current operating:				
General government	198,654	198,654	198,654	
Administrative shared expenditures	151,472	151,472	151,472	
Total expenditures	350,126	350,126	350,126	
REVENUES OVER (UNDER) EXPENDITURES	(261,736)	(261,736)	(232,266)	29,470
OTHER FINANCING SOURCES (USES):				
Transfers in	1,106,290	1,106,290	2,464,360	1,358,070
Transfers out	(1,011,584)	(983,070)	(822,757)	160,313
Total other financing sources (uses)	94,706	123,220	1,641,603	1,518,383
Net change in fund balance	$ (167,030)	$ (138,516)	1,409,337	$ 1,547,853
FUND BALANCE:				
Beginning of year			451,914	
End of year			$ 1,861,251	

APPENDIX C
GENERAL INFORMATION RELATING TO THE CITY OF MERCED

The following information concerning the City of Merced and surrounding areas is included only for the purpose of supplying general information regarding the area of the Gateways Project Area. The Bonds are not a debt of the City, the County, the State or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

General Description and Background

The City of Merced (the "City") is located in Merced County (the "County") and serves as the county seat. The City is located in the heart of the San Joaquin Valley approximately 110 miles southeast of San Francisco and 310 miles northwest of Los Angeles. The City is located on Highway 99, the dominant north-south freeway in California, and is served also by Highways 140 and 59. Merced is less than two hours by car from Yosemite National Park to the east and to the west is Monterey Bay, the Pacific Ocean, and miles of beaches. The community is served by rail passenger service, a commercial airliner, and two bus lines. The two railroads, Union Pacific and Burlington Northern Santa Fe, have main lines which pass through the City.

The County has six incorporated cities, of which the City is the largest in terms of population. The City lies in the mid-portion of the County.

Population

The following sets forth the City, the County and the State population estimates as of January 1 for the years 2005 to 2009:

CITY OF MERCED, MERCED COUNTY AND STATE OF CALIFORNIA
Estimated Population

Year (January 1)	City of Merced	Merced County	State of California
2005	74,010	241,464	36,728,196
2006	75,854	246,114	37,195,240
2007	79,381	250,380	37,559,440
2008	79,886	253,471	37,883,992
2009	80,542	256,450	38,292,687

Source: State of California Department of Finance, Demographic Research Unit.

Commerce

Total taxable sales during the first quarter of calendar year 2008 in the City were reported to be $,237,968,000, a 9.9% decrease over the total taxable sales of $,264,119,000 reported during the first quarter of calendar year 2007. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2008.

CITY OF MERCED
Taxable Transactions
(dollars in thousands)

	2003	2004	2005	2006	2007
Retail Stores					
Apparel Stores	$ 19,659	$ 21,836	$ 25,098	$ 25,298	$ 26,778
General Merchandise Stores	209,249	215,601	229,235	243,079	237,611
Food Stores	41,809	42,367	46,672	48,249	50,624
Eating and Drinking Places	72,597	81,410	87,443	91,132	91,196
Home Furnishings and Appliances	24,874	25,617	28,479	29,982	25,259
Bldg. Materials and Farm Implmnts.	81,688	106,605	115,194	117,076	95,953
Auto Dealers and Auto Supplies	228,116	238,070	261,173	232,726	220,613
Service Stations	53,603	61,223	71,768	74,782	76,002
Other Retail Stores	92,560	106,140	114,312	108,868	97,222
Retail Store Totals	824,155	898,869	979,374	971,192	921,258
All Other Outlets	156,844	201,690	210,456	212,699	180,066
TOTAL ALL OUTLETS	$980,999	$1,100,559	$1,189,830	$1,183,891	$1,101,324

Source: State Board of Equalization.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table. Total taxable sales during the first quarter of calendar year 2008 in the County were reported to be $556,973,000, a 4.4% decrease over the total taxable sales reported during the first quarter of calendar year 2007 of $582,863,000. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2008.

COUNTY OF MERCED
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions

	2003	2004	2005	2006	2007
Retail Stores:					
Apparel Stores Group	$ 26,147	$ 28,771	$ 32,647	$ 33,491	$ 35,339
General Merchandise Stores Group	287,305	295,910	317,099	332,917	323,894
Specialty Stores Group	105,705	120,396	133,984	134,174	(1)
Food Stores Group	128,651	136,964	153,533	162,102	165,768
Eating and Drinking Group	143,453	157,499	169,992	180,885	184,264
Household Group	38,495	41,433	46,235	47,011	40,131
Building Materials Group	107,230	139,753	156,103	159,119	155,667
Automotive Group	513,967	586,532	669,235	661,310	701,695
Other Retail Stores	110,199	116,602	129,915	130,331	242,472
Retail Store Totals	1,461,152	1,623,860	1,808,743	1,841,340	1,849,230
Business and Personal Services	61,764	64,962	65,660	67,346	67,154
All Other Outlets	487,254	577,127	675,115	707,545	601,098
TOTAL ALL OUTLETS	$2,010,170	$2,265,949	$2,549,518	$2,616,231	$2,517,482

(1) Included in “Other Retail Stores”.
Source: State Board of Equalization.

Employment and Industry

The following table shows the average annual estimated numbers of wage and salary workers by industry for the County of Merced. Figures do not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

MERCED COUNTY
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2004	2005	2006	2007	2008
Civilian Labor Force [1]	98,600	99,900	100,200	102,100	103,400
Employment	87,800	89,900	90,800	91,700	90,300
Unemployment	10,800	10,000	9,400	10,400	13,100
Unemployment Rate	10.9%	10.0%	9.3%	10.1%	12.7%
Wage and Salary Employment: [2]					
Agriculture	10,200	10,500	10,900	11,100	11,000
Construction	3,300	3,600	3,600	3,200	2,400
Manufacturing	11,100	11,100	9,700	9,300	9,400
Wholesale Trade	1,500	1,500	1,800	1,900	1,800
Retail Trade	7,500	7,500	7,500	7,800	7,500
Transportation, Warehousing and Utilities	1,900	1,900	2,100	2,300	2,300
Information	1,600	1,600	1,400	1,400	1,200
Finance and Insurance	1,100	1,200	1,200	1,200	1,100
Real Estate and Rental and Leasing	700	700	800	700	600
Professional and Business Services	3,300	3,400	3,800	4,000	4,000
Educational and Health Services	5,500	5,400	5,300	5,600	5,500
Leisure and Hospitality	4,700	4,700	4,800	5,000	5,000
Other Services	1,700	1,700	1,500	1,600	1,500
Federal Government	800	800	700	800	800
State Government	700	1,000	1,300	1,500	1,600
Local Government	11,900	12,400	12,600	12,900	13,100
Total, All Industries	67,300	68,800	69,000	70,100	68,700

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
Source: State of California Employment Development Department.

Major Employers

The following tables list the largest manufacturing and non-manufacturing employers within the County as of January 2009:

MERCED COUNTY
Largest Employers (Listed Alphabetically)
January 2009

Employer Name	Location	Industry
Bianchi & Sons Shipping	Merced	Fruits & Vegetable Growers & Shipper
E&J Gallo Winery	Livingston	Winery
Foster Farms Inc.	Livingston	Poultry Processing Plants
Golden Valley Health Center	Merced	Medical
Hilmar Cheese Co. Visitor Center	Hilmar	Restaurant
Hilmar Cheese Co.	Hilmar	Cheese Processing
John B. Sanfilippo & Son Inc.	Gustine	Nuts- Processing
Joseph Farms	Atwater	Ranches
Liberty Packing	Los Banos	Food Products & Packaging
Live Oak Farms	Le Grand	Fruits & Vegetable Growers & Shipper
Livingston USD District Office	Livingston	Public Schools
Malibu Boats West Inc.	Merced	Boat Manufacturer
Man-Siak Mak Inc	Merced	Physicians & Surgeons
Merced College	Merced	College
Merced County Human Services	Merced	County Gov.- Social Services
Mercy Medical Center	Merced	Hospital
Quebecor World	Merced	Printer
Sensient Dehydrated Flavors	Livingston	Dehydrating Service
Wal-Mart	Merced, Los Banos	Department Store
Weaver Union School District	Merced	Public Schools
Werner Co.	Merced	Wholesale Ladders
Western Marketing & Sales	Atwater	Marketing Programs & Services
Yosemite Wholesale Inc.	Merced	Retail Grocers

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database

Construction Activity

The following tables show a five year summary of the valuation of building permits issued in the City and the County.

CITY OF MERCED
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2004	2005	2006	2007	2008
Permit Valuation					
New Single-family	$101,981.0	$219,832.1	$154,525.9	$23,836.3	$2,848.3
New Multi-family	4,223.1	18,350.1	2,730.0	466.4	0.0
Res. Alterations/Additions	3,218.5	2,830.3	2,543.3	2,108.3	1,555.3
Total Residential	$109,422.6	$241,012.5	$159,799.2	$26,411.1	$4,403.6
New Commercial	$ 7,965.5	$ 9,898.8	$12,240.0	$12,758.0	$2,860.0
New Industrial	1,727.8	1,200.6	2,480.0	8,966.7	800.0
New Other	15,156.9	8,946.8	13,096.7	4,619.6	1,685.2
Com. Alterations/Additions	9,519.6	22,210.3	13,149.6	5,432.6	4,099.0
Total Nonresidential	$34,369.7	$42,256.5	$40,966.4	$31,776.9	$9,444.3
New Dwelling Units					
Single Family	715	1,428	953	183	21
Multiple Family	54	194	52	6	0
TOTAL	769	1,622	1,005	189	21

Source: Construction Industry Research Board, *Building Permit Summary*.

COUNTY OF MERCED
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2004	2005	2006	2007	2008
Permit Valuation					
New Single-family	$418,829.3	$629,307.0	$393,829.1	$133,449.1	$ 56,590.8
New Multi-family	4,588.1	20,583.6	5,469.3	1,359.2	17,433.4
Res. Alterations/Additions	16,221.8	16,093.8	16,645.1	16,509.3	7,956.9
Total Residential	$439,639.2	$665,984.4	$415,943.4	$151,317.6	$81,981.0
New Commercial	$17,328.5	$ 34,857.4	$ 53,461.8	$ 56,007.5	$ 22,012.3
New Industrial	2,357.2	8,304.8	4,602.0	8,966.7	5,590.6
New Other	48,886.9	59,592.2	53,851.3	36,590.2	61,762.9
Com. Alterations/Additions	19,636.9	33,530.0	21,574.3	16,090.9	21,138.7
Total Nonresidential	$88,209.6	$136,284.5	$133,489.4	$117,655.3	$110,504.6
New Dwelling Units					
Single Family	2,518	3,518	2,067	711	250
Multiple Family	58	222	80	14	229
TOTAL	2,576	3,740	2,147	725	479

Source: Construction Industry Research Board, *Building Permit Summary*.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

COUNTY OF MERCED
Effective Buying Income
2004 through 2008

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2004	City of Merced	$ 801,653	$29,122
	Merced County	2,937,058	34,200
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Merced	$ 885,028	$30,529
	Merced County	3,144,832	35,717
	California	720,798,106	44,681
	United States	5,984,663,364	40,529
2006	City of Merced	$ 959,455	$32,185
	Merced County	3,390,398	37,100
	California	764,120,962	46,275
	United States	6,107,092,244	41,255
2007	City of Merced	$ 987,818	$31,784
	Merced County	3,451,843	36,745
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Merced	$ 1,017,473	$32,697
	Merced County	3,554,210	37,786
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Survey of Buying Power for 2001 through 2004; Claritas Demographics for 2005 and thereafter.

Transportation

Situated on Highway 99, Merced County offers excellent transportation access routes throughout California and the Western United States. Many communities in the County offer airports for corporate service. Air service is available locally at Merced Regional Airport, approximately 45 minutes south at Fresno Yosemite International Airport. San Francisco International Airport, Oakland International Airport, San Jose International Airport and Sacramento International Airport are each within 2 1/2 hours driving time away.

Union-Southern Pacific and Burlington Northern-Santa Fe Railroads are the San Joaquin Valley Rail companies that serve Merced County with extensive spur track, piggyback service, reciprocal switching, and refrigerated shipping. Amtrak provides passenger service from a station in the City.

APPENDIX D
FISCAL CONSULTANT'S REPORT

[THIS PAGE INTENTIONALLY LEFT BLANK]

REDEVELOPMENT AGENCY OF THE CITY OF MERCED

GATEWAYS REDEVELOPMENT PROJECT

PROJECTED TAXABLE VALUES AND ANTICIPATED TAX INCREMENT REVENUES

April 23, 2009

I. Introduction

The Redevelopment Agency of the City of Merced (the "Agency") is proposing to issue its Tax Allocation Bonds, Series 2009 (the "Bonds"). The debt service requirements for the Bonds will be secured by a pledge of tax increment revenue from the Agency's Gateways Redevelopment Project (the "Project Area"). The Project Area consists of the original Gateways Redevelopment Project (the Original Area) and two areas that were subsequently annexed to the Original Area (herein referred to as Annex 1 and Annex 2). Proceeds of the Bonds will be used to (i) provide funds to finance redevelopment activities within the Project Area, (ii) satisfy the Reserve Requirement for the Bonds, and (iii) pay costs incurred in connection with the issuance, sale and delivery of the Bonds.

The California Community Redevelopment Law (the Law) provides for the creation of redevelopment agencies by cities and counties for the purpose of the elimination of blight. The Law, together with Article 16, Section 16 of the California Constitution, authorizes redevelopment agencies to receive that portion of property tax revenue generated by project area taxable values that are in excess of the Base Year value. The Base Year value is defined as the amount of the taxable values within the project area boundaries on the last equalized tax roll prior to adoption of the project area. The amount of current year taxable value that is in excess of the Base Year value is referred to as incremental taxable value. Tax revenues generated from the incremental taxable value are, for purposes of this report, referred to as Gross Tax Increment Revenues. The Law provides that the tax increment revenues may be pledged by the redevelopment agency to the repayment of agency indebtedness.

In this report, Gross Tax Increment Revenues including Unitary Tax Revenue (see Section IV, Allocation of State Assessed Unitary Taxes) are referred to as Gross Revenues. For purposes of this report, Tax Revenues are defined as Gross Revenues less the Housing Set-Aside Requirement (see Section V, Low and Moderate Income Housing Set-Aside), SB 2557 County Administrative fees (see Section IV, County Collection Charges) and any pledges of Gross Revenues that have a lien that is superior to that of the debt service payments on the Bonds. Net Tax Revenues are defined herein as Tax Revenues less the statutory tax sharing amounts required to be paid pursuant to Section 33607.5 of the Law. These statutory tax sharing amounts have a lien on Tax Revenues that is subordinate to the payment of debt service on the Bonds (see Section VII, Tax Sharing and Other Obligations).

The purpose of this fiscal consultant report (the Report) is to examine the taxable assessed values for the current fiscal year and project for nine fiscal years the amount of tax increment revenues anticipated to be received by the Agency from the Project Area. As a result of our research, we project that the Tax Revenues that will be pledged to the payment of debt service on the Bonds will be as shown in Table A below (000's omitted):

Table A
Project Area Tax Revenues

Fiscal Year	Original Area Gross Tax Revenue	Annex 1 Gross Tax Revenue	Annex 2 Gross Tax Revenue	Housing Set-Aside	SB 2557 Admin. Fee	Project Area ERAF Share	Project Area Tax Revenues
2008-09	1,884	82	821	(557)	(37)	(187)	**2,006**
2009-10	2,102	101	837	(608)	(40)		**2,391**
2010-11	2,182	104	881	(633)	(42)		**2,492**
2011-12	2,264	108	926	(660)	(44)		**2,595**
2012-13	2,347	112	973	(686)	(45)		**2,700**
2013-14	2,432	116	1,020	(714)	(47)		**2,807**
2014-15	2,519	120	1,068	(741)	(49)		**2,916**
2015-16	2,608	124	1,117	(770)	(51)		**3,028**
2016-17	2,698	128	1,167	(799)	(53)		**3,142**
2017-18	2,790	132	1,218	(828)	(55)		**3,257**

The taxable values of property and the resulting Tax Revenues for the Project Area summarized above is reflected on Tables 1 and 2 of the projections (attached). The projection is based on assumptions determined by our review of the taxable value history of the Project Area and the property tax assessment and property tax apportionment procedures of the Merced County Auditor-Controller (the "Auditor-Controller") and the Merced County Assessor (the "Assessor").

The projection illustrates the entire amount of Tax Revenues projected as being available from the Project Area. It is assumed that the Agency will continue to have sufficient debt to capture all of the available Tax Revenues. Future year assessed values and Tax Revenues are projections based on the assumptions described in this Report and are not guaranteed as to accuracy. This Report is not to be construed as a representation of such by HdL Coren & Cone.

II. The Project Area

The City Council of the City of Merced (the "City") adopted the redevelopment plan establishing the Original Area by Ordinance No. 1939 on July 15, 1996. The Original Area is approximately 1,699 acres in size and consists of several irregular areas. The Original Area is located primarily south of State Highway 99 and north of Childs Avenue. The portions of the Original Area located north of State Highway 99 include several blocks immediately adjacent to the State Highway and between Martin Luther King Way and R Street. Also located north of the State Highway are areas that are south of Yosemite Parkway. One non-contiguous area is located at the southeast corner of Yosemite Parkway and Kibby Road.

On July 17, 2000 the City Council adopted Ordinance No. 2043 that amended the Project Area redevelopment plan to add territory. This first amendment added 46 acres to the Original Area. The added territory is located adjacent to the northeast side of the Merced Regional Airport and south of Grogan Avenue. This area is adjacent to the Original Area boundary.

On July 18, 2005 the City Council adopted Ordinance No. 2201 that further amended the Project Area redevelopment plan to add 1,362.9 acres of additional territory. This added territory consists of ten irregular sub-areas that are located within the downtown area that is north of State Highway 99 between M Street on the west and extending as far east as McKee Road. The sub-areas also include areas south of State Highway 99 that are generally bounded by Childs Avenue on the north, Gerard Avenue on the south, West Avenue on the west and State Highway 99 on the east. The territory added by this amendment includes 504 parcels located within the County unincorporated area. These parcels were added with the permission of the County Board of Supervisors.

The Project Area now encompasses a total of 3,107.9 acres.

A. Land Use

Table B represents the breakdown of land use in the Project Area by the number of parcels and by taxable assessed value for fiscal year 2008-09. Unsecured and SBE non-unitary values are connected with parcels that are already accounted for in other categories. Values shown in Table B are the net taxable values for properties within the various land use categories. This information is based on County land use designations as provided by the County.

Table B
Land Use Summary

Category	No. Parcels	Net Taxable Value	% of Total
Residential	2,733	$327,529,227	52.50%
Commercial	271	171,278,911	27.46%
Industrial	35	31,994,898	5.13%
Irrigated	18	12,424,039	1.99%
Institutional	40	1,074,968	0.17%
Government	121	0	0.00%
Miscellaneous	18	2,828,986	0.45%
Vacant Land	168	18,653,663	2.99%
Subtotal	**3,404**	**$565,784,692**	**90.70%**
Possessory Interest		1,104,211	0.18%
Unsecured		56,935,155	9.13%
Subtotal		**$58,039,366**	**9.30%**
Totals:	**3,404**	**$623,824,058**	**100.00%**

Of the parcels listed above, 501 parcels are located outside of the city limits of Merced. These parcels were incorporated into the areas added by Annex 2 with permission of the County of Merced and have a Net Taxable Value of $66.9 million for 2008-09.

B. Redevelopment Plan Limits

Chapter 942, Statutes of 1993, established limits on redevelopment plans adopted after December 31, 1993. The redevelopment plan for the Project Area was adopted after December 31, 1993. Chapter 942 specified that the effectiveness of a redevelopment plan adopted after 1993 shall expire 30 years from the date of adoption of the Redevelopment Plan. The time limit for establishing indebtedness is 20 years from the date of adoption of the redevelopment plan and the Agency may repay indebtedness for a total of 45 years from the date of the adoption of the redevelopment plan. Any eminent domain proceedings undertaken by the Agency must be initiated within 12 years of the adoption date of the redevelopment plan.

Pursuant to Senate Bill 1045 (see Section VI) the City Council may extend the term of the Project Area by one year. On March 15, 2008 the City Council adopted and approved Ordinance No. 2149 extending the expiration date of the redevelopment plan as it applies to the Original Area and Annex 1 by one year pursuant to Section 33333.2 of the Law. This extension has been reflected in the projections of tax revenue and in the Redevelopment Plan Limits shown in Table C below.

Pursuant to Senate Bill 1096 (see Section VI) the Agency may, as described below, extend the term of effectiveness for certain redevelopment plans and the periods within which the Agency may repay indebtedness by up to two additional years. This two year extension of the time limits is predicated upon the payment by the Agency of its ERAF obligations for 2005 and 2006 (See Section VI). The ERAF obligations for 2005 and for 2006 have been paid in a timely manner. For project areas that have less than 10 years of plan effectiveness remaining after June 30, 2005 a two year extension is authorized. For project areas that have more than 10 years and less than 20 years of plan effectiveness remaining after June 30, 2005 a two year extension is authorized if the City Council can make certain findings. For those project areas with more than 20 years of plan effectiveness remaining after June 30, 2005 no extension of time is authorized. The Project Area could not be extended under Senate Bill 1096. The Redevelopment Plan limits described above and as they apply to the Project Area are summarized below in Table C:

Table C
Redevelopment Plan Limits

Component Area	Plan Expiration	Last Date to Incur New Debt	Last Date to Repay Debt with Tax Increment	Limit on Tax Increment to be Allocated to the Agency	Limit on Outstanding Bonded Indebtedness
Original Area	July 15, 2027	July 15, 2016	July 15, 2042		
Annex 1	July 17, 2031	July 17, 2020	July 17, 2046		
Annex 2	July 18 2035	July 18, 2025	July 18, 2050		
Project Area				$400 million[1]	$50 million

III. Project Area Assessed Values

A. Assessed Values

Taxable values are prepared and reported by the County Auditor-Controller each fiscal year and represent the aggregation of all locally assessed properties that are part of the Project Area. The assessments are assigned to Tax Rate Areas (TRA) that are coterminous with the boundaries of the Project Area. The historic reported taxable values for the Project Area were reviewed in order to ascertain the rate of taxable property valuation growth over the ten fiscal years that the Project Area was eligible to receive tax increment revenue beginning with 1998-99. Since 1998-99 the Project Area was increased in size by Annex 1 in 2001-02 and Annex 2 in 2006-07. As a result of the addition of these territories, the aggregate base year value for the Project Area has been increased. Although the Original Area, Annex 1 and Annex 2 are component areas of the Project Area, each is

[1] Redevelopment plans adopted after January 1, 1994 are not required to contain limitations on the amount of tax increment revenue that may be divided and allocated to the Agency. This limitation of $400 million was included in the text of the redevelopment plan.

considered separately for purposes of determining the amount of tax increment revenue to be allocated to the Agency.

From 1998-99 through 2008-09, growth in Original Area assessed value has primarily occurred within residential and commercial properties. The Original Area grew in value by a total of $174.2 million (85.56%) during this time period. Of the increase in valuation from 1998-99 through 2007-08, $81.2 million (58.2%) was the result of increased valuation of residential properties. The residential properties within the Original Area declined in value for 2008-09 by $3.4 million (1.9%). Significant increases in value for commercial properties ($25.8 million), however, more than compensated for the residential value losses. Total assessed values for the Original Area increased by $34.7 million (10.11%) for 2008-09.

Annex 1 first produced incremental value in fiscal year 2002-03. During the period of 2002-03 through 2007-08 the valuations within Annex 1 increased by $5.5 million (34.12%). By far the greatest increase in value came from unsecured valuations. Assessed values for 2008-09 declined by $1.7 million (7.97%). The entire reduction in value resulted from within the unsecured tax roll. The secured values in Annex 1 increased for 2008-09 by $1.2 million (36.4%). The majority of the unsecured value within Annex 1 is from New Werner Holding Company (formerly Keller Extrusions), the top taxpayer in the Annex 1. This company's unsecured values are $2.7 million lower for 2008-09 than for 2007-08. The New Werner Holding Company is still the major contributor to Annex 1's assessed value. This taxpayer accounts for 72.89% of all assessed value in Annex 1 and 181.9% of the Annex 1 incremental value. The small number of parcels and relatively small amount of assessed value within Annex 1 limits its potential for tax increment generation.

Annex 2 first produced incremental value in fiscal year 2006-07. Growth in assessed value within Annex 2 produced $57.9 million in incremental value for 2006-07 and $79.0 million for 2007-08, an increase of 10.42% from the first year. For 2008-09 assessed values in Annex 2 increased by $2.4 million (1.07%). The majority of the Annex 2 assessed value continues to be secured value. For 2008-09 secured value made up 96.29% of the total valuation in Annex 2. A portion of the Annex 2 territory lies outside of the Merced city limits. The portion of the Annex 2 area within the Merced city limits accounts for 70.3% of the territory's total assessed value for 2008-09 with the remaining 29.7% lying within County unincorporated areas. The majority of the value within Annex 2 lies with residential parcels. Residential parcels account for $148.3 million (65.8%) of the total valuation in Annex 2.

In response to the down-turn in real estate values state-wide, the Merced County Assessor reviewed the values of many of the parcel values within the County. In 1978, California voters passed Proposition 8. This constitutional amendment allows a temporary reduction in assessed value when a property suffers a "decline in value." A decline in value occurs when the current market value of a property is less than the current assessed value as of the lien date. Under the terms of Proposition 8, it is the Assessor's obligation to assess all properties at the lesser of current market value or at the property's base value as adjusted for inflation and for any changes that have occurred to the property since it was last purchased.

Properties that have their values reduced to the current market value are annually reviewed by the Assessor to determine the new market value of the property. The value that is enrolled each year is the lesser of the current market value or the property's base adjusted base value. Adjusting the property's value to the current market value may entail a further decrease in value or an increase in value that is not limited by constitutional restriction on annual value increases. Once the property has once again reached its adjusted base value, it may be increased in value only by the rate of inflation to a maximum annual rate of two percent as required by the constitution. Within the assessment rolls for 2007-08, there were a number of properties that had already been reduced in value under Proposition 8. The assessment rolls for 2008-09 include a greater number of such properties. Table D below illustrates the values within the Project Area that have been reduced under Proposition 8 and that are now subject to annual review of their market values and reassessment to that current market value.

Table D
Changes in Residential Value Due to Prop 8

	Original Area	Annex 1	Annex 2	Project Area
2007-08 Prop 8 Parcels	53	None	87	140
2007-08 Prop 8 Values	$11,926,500		$18,915,500	$30,842,000
2008-09 Prop 8 Parcels	223	None	173	396
2008-09 Prop 8 Values	$33,518,665		$27,820,460	$61,339,125
Prior Year Values	$47,757,516		$37,690,426	$85,447,942
Change In Value	($14,238,851)		($9,869,966)	($24,108,817)
Percentage Change	(29.81%)		(26.19%)	(28.22%)

The parcels that were reduced in value pursuant to Prop 8 were all residential properties. For 2008-09 there are 2,733 residential parcels within the Project Area. The 396 residential parcels that have been reduced in value under Prop 8 represent 14.5% of all residential parcels. Despite the $24,108,817 reduction in value by the Assessor on these 396 Prop 8 properties, the total value of residential parcels within the Project Area for 2008-09 is down from the 2007-08 value by only $7,618,515 (2.28%). This is the result of ongoing increases in assessed value for those parcels that have been owned by the property owners for many years and that are still enrolled at values significantly below the current, reduced market values. In addition, parcels that have been owned for long periods of time will, even when sold in a down market, be enrolled at significantly higher values relative to their previously enrolled assessed values. This is characteristic of the older residential neighborhoods within the Project Area. As noted above the Project Area's total values for 2008-09 are up by 10% over its values for 2007-08 owing to growth in commercial and industrial values.

It is very possible that additional residential properties will be reduced in value in coming years under Prop 8. As the housing market rebounds values on these properties will be increased in keeping with market values until such time as the properties regain their original adjusted base value.

B. Top Ten Taxpayers

A review of the top ten taxpayers in the Project Area for fiscal year 2008-09 was conducted. Within the Project Area, the aggregate total taxable value for the ten largest taxpayers is $83,102,335. This amount is 29.88% of the $278,155,048 Project Area incremental value. The properties owned by the ten largest taxpayers represent 13.32% of the Project Area's total assessed value of $623,824,058. The top taxpayer in the Project Area is the New Werner Holding Company Inc. This company operates as Keller Extrusions of California which has unsecured values of

$14,458,210. This company occupies parcels owned by Lyons Investments, another of the top ten taxpayers. Werner Holding Company is a leading manufacturer of ladders and other climbing devices. It has two manufacturing facilities in the United States, including the Merced facility, and one in Juarez, Mexico. The Werner Holding Company is the world's leading manufacturer and distributor of fiberglass, aluminum and wood climbing products.

The second largest taxpayer in the Project Area is Catholic Healthcare West, the operating entity for Mercy Hospital of Merced. The majority of the hospital's value is exempt from property taxes, however, the medical offices and retail operations within the facility are subject to taxation. These taxable activities are assessed at $11,779,491 in secured value. Catholic Healthcare West's property represents 1.89% of the Project Area's total value for 2008-09 and 4.23% of the Project Area's incremental value. Table E illustrates the percentage of incremental value for the top ten taxpayers in the Project Area and their relative importance to the Project Area's incremental value.

Table E
Top Ten Taxpayers

Property Owner	Combined Owner Value	% of Total Value	% of Incremental Value
Werner Holding Company	$14,458,210	2.32%	5.20%
Catholic Healthcare West	11,779,491	1.89%	4.23%
Wal Mart Stores East LP	9,238,752	1.48%	3.32%
Fornia Hospitality Group LLC	8,271,710	1.33%	2.97%
Playa Merced LLC	7,647,460	1.23%	2.75%
Gagan Ringo Gulai	7,566,386	1.21%	2.72%
Maxs Partnership	7,059,678	1.13%	2.54%
Savemart of Modesto	6,553,680	1.05%	2.36%
Lyons Investment	5,741,318	0.92%	2.06%
CVP Acquisition Corp.	4,785,650	0.77%	1.72%
Top Property Owner Total Value	**$83,102,335**		
Project Area Assessed Value	**$623,824,058**	**13.32%**	
Incremental Value	**$278,155,048**		**29.88%**

V. Tax Allocation and Disbursement

A. Property Taxes

The taxable values of property are established each year on the property tax lien date. The lien date is January 1 for all state and locally assessed property. Real Property reflects the reported assessed values for secured and unsecured land and improvements. Pursuant to Article XIIIA of the State Constitution the value of locally assessed Real Property may only be increased by up to two percent annually to reflect inflation. In most cases Real Property values are permitted to increase to full market value as a result of a change of ownership or new construction.

Utility property assessed by the State Board of Equalization may be revalued annually and such assessments are not subject to the inflation limitations of Article XIIIA. The taxable value of

Personal Property is also established on the lien dates and is not subject to the annual inflationary adjustment that is applied to locally assessed Real Property.

Secured property includes property on which any property tax levied by a county becomes a lien on that property. Unsecured property typically includes value for tenant improvements, fixtures, inventory and personal 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 secured property owned by the taxpayer. The taxes levied on unsecured property are levied at the previous year's secured property tax rate.

B. Supplemental Assessment Revenues

Chapter 498 of the Statutes of 1983 provides for the reassessment of property upon a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment and is determined by applying the current year's tax rate to the amount of increase in a property's value and prorating the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction. Supplemental Assessments become a lien against Real Property. Since 1984-85 revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes. The receipt of Supplemental Tax Revenues by taxing entities typically follows the change of ownership by a year or more. Senate Bill 813 allows the County Auditor-Controller to collect an administrative fee for the collection and allocation of supplemental revenues. This fee is authorized at a total of 5% of the amount of the supplemental revenues allocated. The County is not currently collecting this fee. We have **not** included revenues resulting from Supplemental Assessments in the projections nor have we deducted any potential supplemental revenue collection fees.

Table F illustrates the amounts of Supplemental Assessment Revenues that have been received by the Agency for the Project Area during the previous four fiscal years.

Table F
Supplemental Assessment Revenue History

	2003-04	2004-05	2005-06	2006-07	2007-08
Original Area	$83,451	$131,866	$274,175	$154,280	$165,085
Annex 1	($462)	$1,087	$0	$0	$0
Annex 2				$76,152	$135,285
Project Area Total	**$82,989**	**$132,953**	**$274,175**	**$230,432**	**$300,370**

C. Tax Rates

Tax rates will vary from area to area within the State, as well as within a community and a project area. The tax rate for any particular parcel is based upon the jurisdictions levying the tax rate for the area where the parcel is located. The tax rate consists of the general levy rate of $1.00 per $100 of taxable values and the over-ride tax rate. The over-ride rate is that portion of the tax rate that exceeds the general levy tax rate and is levied to pay voter approved indebtedness or contractual obligations that existed prior to the enactment of Proposition XIII. A Constitutional amendment approved in June 1983 allows the levy of over-ride tax rates to repay indebtedness for the acquisition and improvement of real property, upon approval by a two-thirds vote. A subsequent amendment of the Constitution prohibits the allocation to redevelopment agencies of tax revenues derived from over-ride tax rates levied for repayment of indebtedness approved by the voters after December 31, 1988. The over-ride tax rates typically decline each year as a result of (1) increasing property values (which would reduce the over-ride rate that must be levied to meet debt service) and (2) the eventual retirement of debt over time. Unsecured taxable value is taxed using the prior year's secured tax rate.

The Project Area contains a total of 24 Tax Rate Areas (TRAs) of which four contain neither taxable value nor have been assigned base year value. A Tax Rate Area is a geographic area within which the taxes on all property are levied by a certain set of taxing entities. These taxing entities each receive a prorated share of the general levy and those taxing entities with voter approved over-ride tax rates receive the revenue resulting from that tax rate. The tax increment projections are based on the levied tax rates for 2008-09. Within the various TRAs there are two tax rates levied. After eliminating all override tax rates that received approval by voters after January 1, 1989 there are no override tax rates that are applicable to Agency revenues within the Project Area. Table G illustrates the different secured tax rates that are applicable to the TRAs within the Project Area, the number of TRAs to which each tax rate is applied and the incremental value attributable to each tax rate. Table G illustrates the different unsecured tax rates that are applicable to the TRAs within the Project Area, the number of TRAs to which each tax rate is applied and the incremental value attributable to each tax rate.

Table G

Project Area Tax Rates

	Tax Rate 1	Tax Rate 2
Incremental Secured Value	**$180,916,317**	**$96,649,157**
No. of TRAs	**18**	**3**
General Levy	1.0000	1.0000
RDA Tax Rate	**1.0000**	**1.0000**
Weaver Elementary School District 2000 Bonds		.0355
Merced Elementary School District 2004 Bonds	.0186	
Merced High School District 1999 Bonds	.0135	.0135
Merced Community College District #1 Bonds	.0175	.0175
Total Tax Rate:	**1.0496**	**1.0665**

D. Allocation of Taxes

Taxes paid by property owners are due in two equal installments. Installments of taxes levied upon secured property become delinquent on December 10 and April 10. Taxes on unsecured property are due and payable on January 1 and become delinquent August 31. The County Auditor-Controller has varied its allocation schedule from year to year. Generally, however, the County disburses Tax Increment Revenue to all redevelopment agencies from November through August with approximately 55 percent of secured revenues apportioned by the end of January and the balance being allocated in May and August. Unsecured revenues are disbursed in November, and

December. The November payment has typically consisted of an 80% advance on the total unsecured levy.

In accordance with Revenue and Taxation Code Section 4701 the County utilizes an alternative method for the distribution of tax revenue to taxing agencies known as the Teeter Plan. Under this method, the taxing entities, including redevelopment agencies in Merced County receive 100 percent of the taxes levied on the extended tax roll subject to correction, cancellation and refunds. The tax revenues of the taxing entities are not subject to revenue loss due to delinquencies or gains due to redemptions. Counties utilizing the Teeter Plan are required to maintain an amount equivalent to two percent of the total of all taxes and assessments levied on the secured roll for the year for participating entities in the county in a tax loss reserve fund, or 50 percent of the total delinquent secured taxes and assessments to cover losses that may occur as a result of property tax delinquencies.

E. Assessment Appeals

Assessment appeals data is not readily available from Merced County. As a result, a review was made of the assessment appeals status of each of the top ten taxpayers for Project Area. The Clerk of the Board of Supervisors has reviewed a listing of all properties owned by the top ten taxpayers in the Original Area, Annex 1 and Annex 2. According to the Clerk of the Board, as of March 2, 2009 there are no assessment appeals pending on any of the properties listed.

F. County Collection Charges

Chapter 466 allows counties to recover charges for property tax administration in an amount equal to their 1989-90 property tax administration costs, as adjusted annually. For fiscal year 2007-08, the County collection charges were $21,667. This amount included a total of $20,354 collected from the Original Area and $1,313 collected from Annex 1. There was no County Collection Charge assessed against Annex 2. The amounts were approximately 1.32% of these component areas expected Gross Revenue for 2007-08. For the purposes of this report and the projection of tax revenue, it is assumed that the charge as a percentage of Gross Revenue will remain at 1.32% and that in all subsequent fiscal years this amount will be collected from Annex 2 revenues as well. We have assumed that the County will continue to charge the Agency for property tax administration and that such charge will increase proportionally with any increases in revenue.

H. Allocation of State Assessed Unitary Taxes

Legislation enacted in 1986 (Chapter 1457) and 1987 (Chapter 921) provided for a modification of the distribution of tax revenues derived from utility property assessed by the State Board of Equalization (SBE), other than railroads. Prior to the 1988-89 fiscal year, property assessed by the SBE was assessed statewide and was allocated according to the location of individual components of a utility in a tax rate area. Commencing in 1988-89, tax revenues derived from unitary property and assessed by the SBE are accumulated in a single Tax Rate Area for the County. It is then distributed to each taxing entity in the County in the following manner: (1) each taxing entity will receive the same amount as in the previous year plus an increase for inflation of up to two percent; (2) if utility tax revenues are insufficient to provide the same amount as in the previous year, each taxing entity's share would be reduced pro-rata county wide; and (3) any increase in revenue above two percent would be allocated in the same proportion as the taxing entity's local secured taxable values are to the local secured taxable values of the County.

The Auditor Controller allocated $5,000 in unitary tax revenue to the Original Area and $316 in unitary revenue to Annex 1 for fiscal year 2007-08. No unitary revenue was allocated to Annex 2 for either 2006-07 or 2007-08. For purposes of this projection, we have assumed that these amounts will continue to be allocated annually to the Project Area for the life of the projection.

V. Low and Moderate Income Housing Set-Aside

Sections 33334.2 and 33334.3 of the Law require redevelopment agencies to set aside not less than 20 percent of all tax increment revenues from project areas adopted after December 31, 1976 into a low and moderate income housing fund (the Housing Set-Aside Requirement). An agency can reduce the Housing Set-Aside Requirement if the agency annually makes certain findings, consistent with the General Plan Housing Element. These findings are that: (1) no need exists in the community to improve or increase the supply of low and moderate income housing; or, (2) some stated percentage less than 20 percent of the tax increment is sufficient to meet the housing need. In order to make findings (1) or (2), the Agency's finding must be consistent with the Housing Element of the community's General Plan, including its share of the regional housing needs of very low income households and persons and families of low or moderate income. The Agency has not made such findings in the past and has fully funded the Housing Set-Aside Requirement. Accordingly, there is no funding deficit. We have assumed in the projection that the Agency will continue to meet the Housing Set-Aside Requirement.

VI. Legislation

In order to address State Budget deficits, the Legislature enacted SB 614, SB 844 and SB 1135 that required payments from redevelopment agencies for the 1992-93, 1993-94 and 1994-95 fiscal years into a countywide Education Revenue Augmentation Fund (the ERAF). From 1995-96 through 2001-02, state budgets were adopted with no additional shifting of tax increment from redevelopment agencies. The State Budget for fiscal year 2002-03 required a shift of $75 million of tax increment statewide from redevelopment agencies to ERAF to meet the current state budget shortfall. AB 1768 (Chapter 1127, Statutes of 2002) was enacted by the Legislature and signed by the Governor and based upon the methodology provided in the 2002-03 budget the shift requirement for the Agency was $163,849. This requirement was for fiscal year 2002-03 only. This amount did not impact the Agency's ability to fulfill its payment obligations. This shift of revenue is an obligation of the Agency and not of the project area. The Agency was permitted to satisfy this obligation with any legally available funds. The Agency made the required payment to the County by the deadline of May 10, 2003.

As part of the State's 2003-04 budget legislation, SB 1045 (Chapter 260, Statutes of 2003) requires redevelopment agencies statewide to contribute $135 million to local County Education Revenue Augmentation Funds (ERAF) which reduces the amount of State funding for schools. This transfer of funds was limited to fiscal year 2003-04. Based on the estimates of the California Department of Finance, the amount of revenue that was to be transferred by the Agency to Merced County for

2003-04 was $260,151. The Agency made this payment to the County by the May 10, 2004 deadline.

Under the Law as amended by SB 1045, the Agency was authorized to use a simplified methodology to amend the Project Area redevelopment plans to extend by one year the effectiveness of the plan and the time during which the Agency may repay debt with tax increment revenues. The Agency adopted Ordinance No. 2149 on March 15, 2004. By its approval of this ordinance, the Agency extended by one year the effective life of the redevelopment plan and the period within which the Agency may repay indebtedness from tax increment revenues. Since Annex 2 had not yet been added to the Project Area at the time that SB 1045 was adopted, this extension affects the limits for the Original Area and Annex 1 only and does not affect the limits for Annex 2. The limits shown in Table C reflect this extension and they have been incorporated into the projection of tax revenue.

The State's 2004-05 budget was approved by the legislature and signed by the Governor. Senate Bill 1096 was a trailer bill that dealt with local government. Based on SB 1096, redevelopment agencies paid a total of $250 million to ERAF in each of the next two fiscal years using the same formula as was used for 2003-04. These annual payments were due on May 10 of each fiscal year. As in previous years, payments could have been made from any available funds other than the Housing Fund. Had an agency been unable to make a payment, it was permitted to borrow up to 50 percent of that years housing set-aside amount, however, the borrowed amount must be repaid to the Housing Fund within 10 years of the last ERAF payment (May 10, 2006). The Agency's obligation for 2004-05 was $489,910 and the obligation for 2005-06 was $461,910. Both of these amounts were paid to the County by the deadline.

For redevelopment plans with less than ten years of effectiveness remaining from June 30, 2005, the plans may be extended by one year for each year that an ERAF payment is made. For redevelopment plans with 10 to 20 years of effectiveness remaining after June 30, 2005, the plans may be extended by one year for each year that an ERAF payment is made if the City Council finds that the Agency is in compliance with specified state housing requirements. These requirements are that the Agency is setting aside 20 percent of gross tax increment revenue; housing implementation plans are in place; replacement housing and inclusionary housing requirements are being met; and, no excess surplus exists. If a redevelopment plan has more than 20 years of effectiveness remaining after June 30, 2005 it may not be extended. The component areas of the Project Area cannot be extended pursuant to SB1096.

The Governor recently signed AB 1389 into law. This legislation requires a $350 million shift of tax increment revenues from redevelopment agencies to ERAF during 2008-09. There will be no repayment of this amount and there will there be no extensions of redevelopment plan limits. The Low and Moderate Housing Requirement will not apply to the amount paid for the ERAF. The Agency would be required to pay $577,332. The payment may come from any available Agency revenues. The Agency may borrow up to 50 percent of the ERAF obligation from its current year Housing Set-Aside Requirement. The ERAF payment is subordinate to the payment of debt service on indebtedness existing at the date of enactment of AB 1389. An Agency that cannot make the payment due to existing indebtedness may borrow from their legislative body. Failure to make the ERAF payment will result in penalties that effectively stop new activities of the Agency. This legislation mandates this ERAF shift only for fiscal year 2008-09. This payment obligation has been included in the projections of Tax Revenue.

The California Redevelopment Association (the CRA), the Executive Director of the CRA, the Madera Redevelopment Agency and the Moreno Valley Redevelopment Agency filed a lawsuit in the Sacramento Superior Court challenging the constitutionality of the AB 1389 provisions requiring the $350 million shift of tax increment revenues from redevelopment agencies to ERAF. The lawsuit sought to invalidate the provisions of AB 1389 requiring the tax increment transfer to ERAF and to prohibit the State from forcing county auditors to divert these redevelopment funds to ERAF. A ruling on this suit by the Sacramento County Superior Court was filed on April 30, 2009. The Court found in favor of the plaintiffs, ruling that the requirement that these funds be taken from redevelopment agency revenues and paid into county ERAF accounts was unconstitutional in that this use of redevelopment tax increment revenues conflicts with and violates the Law requiring that tax increment revenues be used to finance redevelopment activities. This ruling, for now, obviates the requirement to make the ERAF payment described in the previous paragraph. It is expected that the State will appeal the ruling. Pending this appeal the payment obligation remains within the projection.

AB 1389 also contains provisions requiring redevelopment agencies with statutory tax sharing obligations to report the amount of statutory tax sharing payments owed in each fiscal year beginning with 2003-04, the amounts of this obligation that have been paid and any amounts that have not been paid. This legislation also requires that redevelopment agencies pay those statutory tax sharing amounts owed or face severe penalties that, if invoked, will effectively eliminate an agency's ability to undertake new redevelopment activities. The Agency has made the required tax sharing payments and has reported these payments to the County Auditor-Controller. The Auditor-Controller has reviewed the Agency's submittal and forwarded it to the State Controller's Office with concurrence. The Agency has received correspondence from the State Controller's Office confirming that it has met all requirements of AB 1389 and that it is not subject to sanctions.

Beyond the ERAF provisions described above, the Agency cannot predict whether the State Legislature will enact any other legislation requiring additional or increased future shifts of tax increment revenues to the State and/or to schools, whether through an arrangement similar to ERAF or by other arrangements, and, if so, the effect on future Tax Revenues. The State is, however, expected to continue experiencing budget difficulties for 2009-10 and perhaps for future years. This could possibly lead to additional shifts of Agency revenue to ERAF.

VII. Statutory Tax Sharing and Other Obligations

<u>Statutory Tax Sharing</u>

Each of the three component areas of the Project Area was adopted after January 1, 1994 and is therefore, subject to the Law as it was amended by passage of AB 1290. As amended, the Law requires that for project areas adopted or for territory added to an existing project area after January 1, 1994, a prescribed portion of the Agency's tax increment revenue must be shared with all taxing entities within the project area. This defined tax-sharing amount has three tiers. The first tier begins with the first year that the project area receives tax increment revenue and continues for the life of the project area. This first tier tax-sharing amount is 25 percent of the Agency's gross tax increment revenue net of the Housing Set-Aside Revenues.

The second tier begins in the eleventh year after the Agency first receives tax increment revenue. This second tier is 21 percent of the tax increment revenue, net of the Housing Set-Aside Revenues, that is derived from the growth in assessed value that is in excess of the assessed value of the project area in year ten.

The third tier begins in the 31st year after the Agency first receives tax increment revenue. This third tier is 14 percent of the tax increment revenue, net of the Housing Set-Aside Revenues that is derived from the growth in assessed value that is in excess of the assessed value of the project area in the 30th year. These three tiers of tax sharing are calculated independent of one another and continue from their inception through the life of the project area.

Section 33607.5(e) of the Law specifies a procedure whereby the Agency may request subordination of the statutory tax sharing payments to payment of debt service on the Bonds by all of the Project Area's taxing entities. As part of this request, the Agency must provide substantial evidence to the taxing entities that it will have sufficient funds to make the debt service payments on the Bonds as well as making the required statutory tax sharing payments.

The taxing entities may respond and agree to the subordination request, they may do nothing and after 45 days be deemed to have agreed to the subordination or they may disapprove the subordination request. A taxing entity may disapprove a subordination request only if it believes based on substantial evidence that the Agency's financial estimates are incorrect and that the Agency will not be able to make debt service and the tax sharing payments. It is the Agency's belief that sufficient evidence was provided to warrant subordination of the tax sharing payments and that no later than 45 days from receipt of the notice by the taxing entities, the tax sharing payments will be subordinate to the payment of debt service on the Bonds. The Agency has requested and received subordination of all taxing entity's statutory tax sharing payments to debt service on the Bonds. The Agency has also received subordination of the statutory tax sharing payments relative to the payment of debt service on its 2001 Bonds from all taxing entities except the Merced Community College District and the Weaver Elementary School District.

VIII. Development Activities

From January 1, 2008 lien date for the 2008-09 tax-roll through December 31, 2008, 101 properties within the Project Area transferred ownership. The sales prices on these transfers were $5,114,964 less than the enrolled values on these properties. As a result, in the projection of tax revenue, this decrease in value is reflected in the projected values for 2009-10.

There are a number of construction projects that are underway or have been recently completed within the Project Area. These include single family residential in-fill construction as well as commercial, hotel and industrial buildings. Developments that were completed after the January 1, 2008 lien date or that are currently under construction are expected to add $18 million in new value to the 2009-10 tax rolls. These additional values have been factored into the projections of assessed value and revenue. The developments are identified by type and address in Table 5 of the projections for the component project areas and are aggregated in Table 5 of the projections for the Project Area that are attached to the Report.

IX. Trended Taxable Value Growth

In accordance with Article XIII A of the State Constitution growth in real property land and improvement values may reflect the year to year inflationary rate not to exceed two percent for any given year or reduction as shown in the consumer price index. A two percent growth rate has been assumed in the projections because it is the maximum inflationary growth rate permitted by law and this rate of growth has been achieved in all but five years since 1981. The years in which less than two percent growth was realized were 1983-84 (1.0%), 1995-96 (1.19%), 1996-97 (1.11%), 1999-00 (1.85%) and 2004-05 (1.867%). Based on recent information, it appears that the inflationary adjustment for 2010-11 is likely to be less than two percent and may be negative. If in future years the growth of taxable value in the project area is less than two percent, the resultant Tax Increment Revenues would be reduced.

As a result of the recent nationwide increase in defaults on residential mortgages there has been concern expressed in the financial market over the possible impact that these defaults may have on redevelopment agency revenues in general. Reliable information on foreclosure activity is difficult to find and what information that is available is not readily applicable to discrete areas within cities and redevelopment project areas. Much of the information available is segregated by county or ZIP code.

Based on data provided to the City of Merced by ForeclosureRadar.com as of February 13, 2009, we were able to determine the number of properties within the Project Area which are subject to foreclosure activity. This Project Area foreclosure activity is reflected in Table H below. The data listed in Table H below addresses all properties identified on the attachment that are located within the Project Area.

Table H
Project Area Foreclosure Activity

Status		Number of Parcels	2008-09 Assessed Value
Notices of Default		28	$3,441,874
Notices of Trustee Sale		18	$2,509,104
Bank Owned Properties		34	$7,298,299
	Totals:	80	$13,249,277
Project Area Totals:		3,404	$623,824,058
% of Project Area Totals		2.35%	2.12%

Foreclosure is started by a Notice of Default and these figures are based on the number of properties with a publicly recorded notice that a property owner has missed scheduled loan payments for a loan secured by a property. Notices of Trustee Sale are based on the number of properties where a document has been filed announcing the public sale of a property to recover a debt owed by the owner of the property. These notices are mailed to the parties affected by the sale of the property, are advertised in local publications and are recorded as public records. Bank Owned Property reflects the number of properties that are now owned by the lender as the result of a foreclosure. Each of these steps is the precursor to the next step in the foreclosure process. Generally the foreclosure process may be halted by the property owner or by the borrower paying the amount that is in default on the loan and bringing the loan current.

HdL Coren & Cone make no representation that taxable values will actually grow at two percent. Future values will also be affected by changes of ownership and new construction not reflected in our projections. In addition, the values of property previously reduced in value due to assessment appeals based on reduced market values could increase more than two percent when real estate values increase more than two percent (see Section IV A above). Seismic activity and environmental conditions such as hazardous substances that are not anticipated in this report might also impact property taxes and Tax Increment Revenue. HdL Coren & Cone makes no representation that taxable values will actually grow at the rate projected. Anticipated revenues could be adjusted as a result of unidentified assessment appeal refunds, other Assessor corrections discussed previously, or unanticipated increases or decreases in property tax values. Estimated valuations from developments included in this analysis are based upon our understanding of the general practices of the Merced County Assessor and Auditor-Controller's Office. General assessment practices are subject to policy changes, legislative changes, and the individual appraiser's judgment. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project

Projection of Incremental Taxable Value & Tax Increment Revenue

(000's Omitted) 4/23/09

Table 1

Taxable Values (1)		**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Real Property (2)		616,285	641,495	654,325	667,411	680,759	694,375	708,262	722,427	736,876	751,613
Personal Property (3)		7,539	7,539	7,539	7,539	7,539	7,539	7,539	7,539	7,539	7,539
Total Projected Value		**623,824**	**649,034**	**661,864**	**674,950**	**688,299**	**701,914**	**715,801**	**729,967**	**744,415**	**759,153**
Taxable Value over Base	**345,669**	**278,155**	**303,365**	**316,195**	**329,281**	**342,630**	**356,245**	**370,132**	**384,298**	**398,746**	**413,484**
Gross Tax Increment Revenue (4)		2,782	3,034	3,162	3,293	3,426	3,562	3,701	3,843	3,987	4,135
Unitary Tax Revenue (5)		5.632	6	6	6	6	6	6	6	6	6
Gross Revenues		**2,787**	**3,039**	**3,167**	**3,298**	**3,432**	**3,568**	**3,707**	**3,848**	**3,993**	**4,140**
SB 2557 Admin. Fee (6)		(37)	(40)	(42)	(44)	(45)	(47)	(49)	(51)	(53)	(55)
Housing Set Aside Requirement (7)		(557)	(608)	(633)	(660)	(686)	(714)	(741)	(770)	(799)	(828)
2009 ERAF Obligation (9)		(187)									
Tax Revenues		**2,006**	**2,391**	**2,492**	**2,595**	**2,700**	**2,807**	**2,916**	**3,028**	**3,142**	**3,257**
Subordinate Payments											
Tier 1 Passthrough to All Taxing Entities (8)		(557)	(608)	(633)	(660)	(686)	(714)	(741)	(770)	(799)	(828)
Tier 2 Passthrough to All Taxing Entities (8)		(123)	(160)	(174)	(187)	(202)	(217)	(232)	(248)	(272)	(297)
Tier 3 Passthrough to All Taxing Entities (8)		0	0	0	0	0	0	0	0	0	0
Net Tax Revenues		**1,325**	**1,623**	**1,685**	**1,748**	**1,812**	**1,877**	**1,943**	**2,010**	**2,071**	**2,133**

(1) Taxable values as reported by Merced County.

(2) Real property consists of land and improvements. Increased for inflation at 2% annually, for new development and for transfers of ownership that have occurred after the January 1, 2008 lien date for fiscal year 2008-09 (See Table 5).

(3) Personal property is held constant at 2008-09 level.

(4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. All override rates within the Project Area were approved by voters after 1988. The tax rate applicable to Project Area revenues is assumed to remain at $1.00 per $100 of incremental value.

(5) Unitary Revenue is held constant at 2007-08 level.

(6) County Administration fee is estimated at 1.32% of Gross Revenue.

(7) Housing Set Aside Requirement is calculated at 20% of Gross Revenue.

(8) Pursuant to H & S Code Section 33607.5 Taxing Entities receive their shares of 25% of total tax increment revenue net of housing set aside (Tier 1). In addition, after year 10 Taxing Entities receive 21% of tax revenue on incremental value above the year 10 value net of housing set aside (Tier 2). After year 30 Taxing Entities receive 14% of tax revenue on incremental value above the year 30 value net of housing set aside (Tier 3). The City of Merced is considered a taxing entity and has electeded to receive its share of this pass through amount. These tax sharing payments are subordinate to payment of debt service on the Bonds.

(9) The State has adopted a budget for 2008-09 that includes taking revenue from redevelopment agencies. The CRA estimate of the Agency's obligation is $580,091. The obligation is for 2008-09 only. The Gateways Project possess 32.61% of the total incremental value from both Agency Project Areas. Based on this percentage, the Gateways Project share of the ERAF obligation is $188,095.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project

4/23/09

PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE

(000s Omitted)

Table 2

		Total Taxable Value	Taxable Value Over Base 201,478	Gross Tax Revenue	SB 2557 Charge	Housing Set-Aside	Project Area Share of ERAF	Tax Revenues	Subordinated Statutory Tax Sharing Payments Tier 1	Tier 2	Tier 3	Net Tax Revenues
1	2008-09	623,824	278,155	**2,787**	(37)	(557)	(187)	**2,006**	(557)	(123)	0	**1,325**
2	2009-10	649,034	303,365	**3,039**	(40)	(608)		**2,391**	(608)	(160)	0	**1,623**
3	2010-11	661,864	316,195	**3,167**	(42)	(633)		**2,492**	(633)	(174)	0	**1,685**
4	2011-12	674,950	329,281	**3,298**	(44)	(660)		**2,595**	(660)	(187)	0	**1,748**
5	2012-13	688,299	342,630	**3,432**	(45)	(686)		**2,700**	(686)	(202)	0	**1,812**
6	2013-14	701,914	356,245	**3,568**	(47)	(714)		**2,807**	(714)	(217)	0	**1,877**
7	2014-15	715,801	370,132	**3,707**	(49)	(741)		**2,916**	(741)	(232)	0	**1,943**
8	2015-16	729,967	384,298	**3,848**	(51)	(770)		**3,028**	(770)	(248)	0	**2,010**
9	2016-17	744,415	398,746	**3,993**	(53)	(799)		**3,142**	(799)	(272)	0	**2,071**
10	2017-18	759,153	413,484	**4,140**	(55)	(828)		**3,257**	(828)	(297)	0	**2,133**
11	2018-19	774,185	428,516	**4,290**	(57)	(858)		**3,376**	(858)	(322)	0	**2,196**
12	2019-20	789,518	443,849	**4,444**	(59)	(889)		**3,496**	(889)	(348)	0	**2,260**
13	2020-21	805,157	459,488	**4,600**	(61)	(920)		**3,619**	(920)	(374)	0	**2,325**
14	2021-22	821,110	475,441	**4,760**	(63)	(952)		**3,745**	(952)	(401)	0	**2,392**
15	2022-23	837,381	491,712	**4,922**	(65)	(984)		**3,873**	(984)	(428)	0	**2,460**
16	2023-24	853,978	508,309	**5,088**	(67)	(1,018)		**4,004**	(1,018)	(456)	0	**2,530**
17	2024-25	870,907	525,238	**5,258**	(69)	(1,052)		**4,137**	(1,052)	(485)	0	**2,601**
18	2025-26	888,174	542,505	**5,430**	(72)	(1,086)		**4,273**	(1,086)	(514)	0	**2,673**
19	2026-27	905,787	560,118	**5,606**	(74)	(1,121)		**4,411**	(1,121)	(543)	0	**2,747**
20	2027-28	923,752	578,083	**5,786**	(76)	(1,157)		**4,553**	(1,157)	(573)	(13)	**2,809**
21	2028-29	942,076	596,407	**5,969**	(79)	(1,194)		**4,697**	(1,194)	(604)	(25)	**2,873**
22	2029-30	960,767	615,098	**6,156**	(81)	(1,231)		**4,844**	(1,231)	(636)	(39)	**2,938**
23	2030-31	979,831	634,162	**6,347**	(84)	(1,269)		**4,994**	(1,269)	(668)	(52)	**3,005**
24	2031-32	999,277	653,608	**6,541**	(86)	(1,308)		**5,147**	(1,308)	(700)	(66)	**3,073**
25	2032-33	1,019,112	673,443	**6,740**	(89)	(1,348)		**5,303**	(1,348)	(734)	(80)	**3,141**
26	2033-34	1,039,343	693,674	**6,942**	(92)	(1,388)		**5,462**	(1,388)	(768)	(95)	**3,211**
27	2034-35	1,059,979	714,310	**7,148**	(94)	(1,430)		**5,624**	(1,430)	(802)	(110)	**3,282**
28	2035-36	1,081,028	735,359	**7,359**	(97)	(1,472)		**5,790**	(1,472)	(838)	(125)	**3,355**
29	2036-37	1,102,498	756,829	**7,574**	(100)	(1,515)		**5,959**	(1,515)	(874)	(150)	**3,421**
30	2037-38	1,124,397	778,728	**7,793**	(103)	(1,559)		**6,131**	(1,559)	(911)	(174)	**3,488**
31	2038-39	1,146,734	801,065	**8,016**	(106)	(1,603)		**6,307**	(1,603)	(948)	(199)	**3,557**
32	2039-40	1,169,518	823,849	**8,244**	(109)	(1,649)		**6,486**	(1,649)	(986)	(225)	**3,626**
33	2040-41	1,192,758	847,089	**8,476**	(112)	(1,695)		**6,669**	(1,695)	(1,025)	(251)	**3,698**
34	2041-42	1,216,462	870,793	**8,713**	(115)	(1,743)		**6,856**	(1,743)	(1,065)	(277)	**3,770**
35	2042-43	471,337	315,492	**3,155**	(42)	(631)		**2,483**	(631)	(324)	(70)	**1,457**
36	2043-44	480,583	324,737	**3,248**	(43)	(650)		**2,555**	(650)	(340)	(80)	**1,486**
37	2044-45	490,013	334,167	**3,342**	(44)	(668)		**2,629**	(668)	(356)	(91)	**1,515**
38	2045-46	499,632	343,786	**3,438**	(45)	(688)		**2,705**	(688)	(372)	(101)	**1,544**
39	2046-47	467,763	323,572	**3,236**	(43)	(647)		**2,546**	(647)	(356)	(101)	**1,441**
40	2047-48	477,001	332,810	**3,328**	(44)	(666)		**2,619**	(666)	(372)	(112)	**1,470**
41	2048-49	486,423	342,233	**3,422**	(45)	(684)		**2,693**	(684)	(387)	(122)	**1,499**
42	2049-50	496,035	351,844	**3,518**	(46)	(704)		**2,768**	(704)	(403)	(133)	**1,528**
				213,870	(2,823)	(42,774)	(187)	**168,086**	(42,774)	(21,026)	(2,689)	**101,596**

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project

Historical Assessed Values (1) 4/23/09

Table 3

Secured (2)	Base Year 1995-96 (3)	1998-99	1999-00	2000-01	Base Year Revised (3)	2001-02	2002-03	2003-04	2004-05	2005-06	Base Year Revised (3)	2006-07	2007-08	2008-09
Land	188,283,837	50,939,812	54,747,096	53,618,981	190,961,969	57,765,665	60,374,322	63,777,132	69,548,083	80,213,440	237,025,173	161,125,817	187,443,223	194,836,854
Impts	1,539,619	147,597,310	151,156,356	149,026,867	1,539,619	163,996,000	161,127,045	168,644,264	182,611,948	222,823,663	120,312,698	389,751,369	420,463,130	440,944,695
Pers Prop	0	9,677,019	7,809,860	6,624,058	0	7,294,282	5,993,598	5,974,746	6,991,805	7,286,237	9,031,187	13,312,594	14,374,491	15,520,137
Exemptions	0	(15,473,526)	(12,635,720)	(14,979,420)	0	(13,210,783)	(8,523,896)	(13,963,671)	(19,929,080)	(35,067,463)	(29,676,632)	(77,947,489)	(79,587,374)	(84,412,783)
Total Secured	**189,823,456**	**192,740,615**	**201,077,592**	**194,290,486**	**192,501,588**	**215,845,164**	**218,971,069**	**224,432,471**	**239,222,756**	**275,255,877**	**336,692,426**	**486,242,291**	**542,693,470**	**566,888,903**
Unsecured														
Land	0	6,069,305	6,166,647	5,757,874	0	6,060,383	3,156,171	2,739,300	3,312,913	3,382,855	0	3,334,152	4,870,143	4,539,728
Impts	0	26,142,521	26,648,414	27,019,475	0	33,488,932	39,256,424	40,017,793	45,834,266	47,415,823	0	48,260,482	55,336,542	60,376,354
Pers Prop	0	18,379,274	18,990,185	19,365,987	8,976,584	20,696,596	25,530,925	25,688,558	28,597,322	24,885,365	8,976,584	33,131,134	29,726,085	38,611,150
Exemptions	0	(39,704,070)	(40,391,575)	(40,927,113)	0	(48,573,370)	(42,741,350)	(25,001,910)	(44,108,591)	(43,633,061)	0	(44,184,751)	(45,069,936)	(46,592,077)
Total Unsecured	**0**	**10,887,030**	**11,413,671**	**11,216,223**	**8,976,584**	**11,672,541**	**25,202,170**	**43,443,741**	**33,635,910**	**32,050,982**	**8,976,584**	**40,541,017**	**44,862,834**	**56,935,155**
GRAND TOTAL	**189,823,456**	**203,627,645**	**212,491,263**	**205,506,709**	**201,478,172**	**227,517,705**	**244,173,239**	**267,876,212**	**272,858,666**	**307,306,859**	**345,669,010**	**526,783,308**	**587,556,304**	**623,824,058**
Incremental Value		13,804,189	22,667,807	15,683,253		26,039,533	42,695,067	66,398,040	71,380,494	105,828,687		181,114,298	241,887,294	278,155,048
Annual Value % Change		2.10%	4.35%	-3.29%			7.32%	9.71%	1.86%	12.62%			11.54%	6.17%

(1) Source: County of Merced. Values for the Original Area and Amendment 1 are from County data. Base year and current year values for Amendment 2 are from County data.

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

(3) Base Year Values are not completely broken out by Land, Improvements, Personal Property and Exemptions when provided by the Auditor Controller. Base year value revised for adoption of Annex 1 and Annex 2 to the Gateways Project Area.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project

4/23/09

TOP TEN TAXABLE PROPERTY OWNERS

For Fiscal Year 2008-09

Table 4

	Secured			Unsecured			Total			
	Value	Parcels	% of Sec. AV	Value	Parcels	% of Unsec. AV	Value	% of Total Value	% of Inc. Value	
1. New Werner Holding Company, Inc.	$0	0	0.00%	$14,458,210	2	25.39%	$14,458,210	2.32%	5.20%	Unsecured
2. Catholic Healthcare West	$11,779,491	4	2.08%	$0	0	0.00%	$11,779,491	1.89%	4.23%	Mercy Hospital of Merced
3. Wal Mart Stores East LP	$9,238,752	2	1.63%	$0	0	0.00%	$9,238,752	1.48%	3.32%	Retail Store
4. Fornia Hospitality Group LLC	$8,271,710	2	1.46%	$0	0	0.00%	$8,271,710	1.33%	2.97%	Commercial
5. Playa Merced LLC	$7,647,460	3	1.35%	$0	0	0.00%	$7,647,460	1.23%	2.75%	Commercial
6. Gagan Ringo Gulati	$7,566,386	1	1.33%	$0	0	0.00%	$7,566,386	1.21%	2.72%	Hampton Inn & Suites
7. Maxs Partnership	$7,059,678	2	1.25%	$0	0	0.00%	$7,059,678	1.13%	2.54%	Commercial
8. Savemart of Modesto, a Corporation	$0	0	0.00%	$6,553,680	1	11.51%	$6,553,680	1.05%	2.36%	Unsecured
9. Lyons Investment, A Partnership	$5,741,318	4	1.01%	$0	0	0.00%	$5,741,318	0.92%	2.06%	Industrial
10. CVP Acquisition Corporation	$4,785,650	1	0.84%	$0	0	0.00%	$4,785,650	0.77%	1.72%	Industrial
Top Ten Property Owner Totals:	**$62,090,445**	**19**		**$21,011,890**	**3**		**$83,102,335**			
Project Area Totals:	$566,888,903		10.95%	$56,935,155		36.90%	$623,824,058	13.32%		
Project Area Incremental Value:	$230,196,477		26.97%	$47,958,571		43.81%	$278,155,048	29.88%		

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project
New Development

4/23/09

Table 5

000's omitted

Real Property	Sq. Ft./ # Units	Unit Value	Total Value	Less Existing	Value Added	Start	Complete	2008-09	2009-10	2010-11	2011-12	2012-13
Playa Merced Shopping Center Site Development	53,930	$65.00	$3,505,450	$0	$3,505	6/15/2007	1/31/2008	$0	$3,505	$0	$0	$0
Playa Merced Commercial Shell Building	15,444	$150.00	$2,316,600	$0	$2,317	6/14/2007	6/14/2008	$0	$2,317	$0	$0	$0
Residential Duplex - 616 W. 6th Street	694	$130.00	$90,220	$25,645	$65	1/24/2007	9/1/2007	$0	$65	$0	$0	$0
Residential Duplex - 521 Canal Street	2,030	$130.00	$263,900	$96,900	$167	4/6/2007	12/31/2007	$0	$167	$0	$0	$0
Single Family Residential - 1037 W. 11th Street	1,018	$130.00	$132,340	$47,217	$85	4/9/2007	12/31/2007	$0	$85	$0	$0	$0
Hotel Development - 151 S. Parsons	49,703	$150.00	$7,455,450	$0	$7,455	12/2/2007	12/31/2008	$0	$7,455	$0	$0	$0
Commercial Building - 1459 Martin Luther King Way	11,663	$150.00	$1,749,450	$122,860	$1,627	10/15/2007	10/15/2008	$0	$1,627	$0	$0	$0
Single Family Residential - 850 W. 13th Street	1,419	$130.00	$184,470	$118,189	$66	7/27/2007	7/27/2008	$0	$66	$0	$0	$0
Residential Duplex - 850 W. 13th Street	1,902	$130.00	$247,260	$0	$247	7/27/2007	7/27/2008	$0	$247	$0	$0	$0
Single Family Residential - 939 W. 6th Street	1,550	$130.00	$201,500	$29,813	$172	12/13/2007	12/13/2008	$0	$172	$0	$0	$0
Lyons Investments Industrial Bldgs. - 140 Macready Drive	20,000	$80.00	$1,600,000	$72,544	$1,527		8/1/2008	$0	$1,527	$0	$0	$0
Residential Duplex - 14 W. 23rd Street	1,505	$150.00	$225,750	$0	$226	3/26/2007	3/1/2008	$0	$226	$0	$0	$0
Single Family Residential - 430 E. Santa Fe	1,800	$150.00	$270,000	$0	$270	3/5/2008	12/31/2008	$0	$270	$0	$0	$0
Single Family Residential - 460 E. Santa Fe	1,800	$150.00	$270,000	$0	$270	3/5/2008	12/31/2008	$0	$270	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	Lump Sum	$0	$0	$0			$0	$0	$0	$0	$0
Transfers of Ownership From 1/1 to 03/31/2008	101	Lump Sum	$12,768,100	$17,883,064	($5,115)			$0	($5,115)	$0	$0	$0
Total Real Property:			**$31,280,490**	**$18,396,232**	**$12,884**			**$0**	**$12,884**	**$0**	**$0**	**$0**

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Original)

04/23/09

Projection of Incremental Taxable Value & Tax Increment Revenue

(000's Omitted)

Table 1

Taxable Values (1)		**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Real Property (2)		379,265	401,006	409,026	417,207	425,551	434,062	442,743	451,598	460,630	469,843
Personal Property (3)		(1,523)	(1,523)	(1,523)	(1,523)	(1,523)	(1,523)	(1,523)	(1,523)	(1,523)	(1,523)
Total Projected Value		**377,741**	**399,483**	**407,503**	**415,684**	**424,028**	**432,539**	**441,220**	**450,075**	**459,107**	**468,319**
Taxable Value over Base	**189,823**	**187,918**	**209,659**	**217,680**	**225,860**	**234,204**	**242,715**	**251,397**	**260,251**	**269,283**	**278,496**
Gross Tax Increment Revenue (4)		1,879	2,097	2,177	2,259	2,342	2,427	2,514	2,603	2,693	2,785
Unitary Tax Revenue (5)		5	5	5	5	5	5	5	5	5	5
Gross Revenues		**1,884**	**2,102**	**2,182**	**2,264**	**2,347**	**2,432**	**2,519**	**2,608**	**2,698**	**2,790**
SB 2557 Admin. Fee (6)		(25)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(36)	(37)
Housing Set Aside Requirement (7)		(377)	(420)	(436)	(453)	(469)	(486)	(504)	(522)	(540)	(558)
Tax Revenues		**1,482**	**1,654**	**1,717**	**1,781**	**1,847**	**1,914**	**1,982**	**2,052**	**2,123**	**2,195**
Subordinate Payments											
Tier 1 Passthrough to All Taxing Entities (8)		(377)	(420)	(436)	(453)	(469)	(486)	(504)	(522)	(540)	(558)
Tier 2 Passthrough to All Taxing Entities (8)		(123)	(160)	(174)	(187)	(201)	(216)	(230)	(245)	(260)	(276)
Tier 3 Passthrough to All Taxing Entities (8)		0	0	0	0	0	0	0	0	0	0
Net Tax Revenues		**982**	**1,073**	**1,107**	**1,141**	**1,176**	**1,212**	**1,248**	**1,285**	**1,323**	**1,361**

(1) Taxable values as reported by Merced County.

(2) Real property consists of land and improvements. Increased for inflation at 2% annually, for new development and for transfers of ownership that have occurred after the January 1, 2008 lien date for fiscal year 2008-09 (See Table 5).

(3) Personal property is held constant at 2008-09 level.

(4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. All override rates within the Project Area were approved by voters after 1988. The tax rate applicable to Project Area revenues is assumed to remain at $1.00 per $100 of incremental value.

(5) Unitary Revenue is held constant at 2007-08 level.

(6) County Administration fee is estimated at 1.32% of Gross Revenue.

(7) Housing Set Aside Requirement is calculated at 20% of Gross Revenue.

(8) Pursuant to H & S Code Section 33607.5 Taxing Entities receive their shares of 25% of total tax increment revenue net of housing set aside (Tier 1). In addition, after year 10 Taxing Entities receive 21% of tax revenue on incremental value above the year 10 value net of housing set aside (Tier 2). After year 30 Taxing Entities receive 14% of tax revenue on incremental value above the year 30 value net of housing set aside (Tier 3). The City of Merced is considered a taxing entity and has electeded to receive its share of this pass through amount. These tax sharing payments are subordinate to payment of debt service on the Bonds.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Original)
PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE

(000s Omitted) 04/23/09

Table 2

		Total Taxable Value	Taxable Value Over Base 189,823	Gross Tax Revenue	SB 2557 Charge	Housing Set-Aside	Tax Revenues	Subordinated Statutory Tax Sharing Payments Tier 1	Tier 2	Tier 3	Net Tax Revenues
1	2008-09	377,741	187,918	**1,884**	(25)	(377)	**1,482**	(377)	(123)	0	**982**
2	2009-10	399,483	209,659	**2,102**	(28)	(420)	**1,654**	(420)	(160)	0	**1,073**
3	2010-11	407,503	217,680	**2,182**	(29)	(436)	**1,717**	(436)	(174)	0	**1,107**
4	2011-12	415,684	225,860	**2,264**	(30)	(453)	**1,781**	(453)	(187)	0	**1,141**
5	2012-13	424,028	234,204	**2,347**	(31)	(469)	**1,847**	(469)	(201)	0	**1,176**
6	2013-14	432,539	242,715	**2,432**	(32)	(486)	**1,914**	(486)	(216)	0	**1,212**
7	2014-15	441,220	251,397	**2,519**	(33)	(504)	**1,982**	(504)	(230)	0	**1,248**
8	2015-16	450,075	260,251	**2,608**	(34)	(522)	**2,052**	(522)	(245)	0	**1,285**
9	2016-17	459,107	269,283	**2,698**	(36)	(540)	**2,123**	(540)	(260)	0	**1,323**
10	2017-18	468,319	278,496	**2,790**	(37)	(558)	**2,195**	(558)	(276)	0	**1,361**
11	2018-19	477,716	287,893	**2,884**	(38)	(577)	**2,269**	(577)	(292)	0	**1,401**
12	2019-20	487,301	297,478	**2,980**	(39)	(596)	**2,344**	(596)	(308)	0	**1,441**
13	2020-21	497,078	307,254	**3,078**	(41)	(616)	**2,421**	(616)	(324)	0	**1,482**
14	2021-22	507,050	317,226	**3,177**	(42)	(635)	**2,500**	(635)	(341)	0	**1,524**
15	2022-23	517,221	327,398	**3,279**	(43)	(656)	**2,580**	(656)	(358)	0	**1,566**
16	2023-24	527,596	337,772	**3,383**	(45)	(677)	**2,662**	(677)	(375)	0	**1,610**
17	2024-25	538,178	348,355	**3,489**	(46)	(698)	**2,745**	(698)	(393)	0	**1,654**
18	2025-26	548,972	359,149	**3,596**	(47)	(719)	**2,830**	(719)	(411)	0	**1,699**
19	2026-27	559,982	370,159	**3,707**	(49)	(741)	**2,916**	(741)	(430)	0	**1,745**
20	2027-28	571,212	381,389	**3,819**	(50)	(764)	**3,005**	(764)	(449)	(13)	**1,780**
21	2028-29	582,667	392,844	**3,933**	(52)	(787)	**3,095**	(787)	(468)	(25)	**1,815**
22	2029-30	594,351	404,527	**4,050**	(53)	(810)	**3,187**	(810)	(488)	(39)	**1,851**
23	2030-31	606,268	416,445	**4,169**	(55)	(834)	**3,281**	(834)	(508)	(52)	**1,887**
24	2031-32	618,424	428,601	**4,291**	(57)	(858)	**3,376**	(858)	(528)	(66)	**1,924**
25	2032-33	630,823	441,000	**4,415**	(58)	(883)	**3,474**	(883)	(549)	(79)	**1,962**
26	2033-34	643,470	453,647	**4,541**	(60)	(908)	**3,573**	(908)	(570)	(94)	**2,001**
27	2034-35	656,370	466,547	**4,670**	(62)	(934)	**3,675**	(934)	(592)	(108)	**2,041**
28	2035-36	669,528	479,704	**4,802**	(63)	(960)	**3,778**	(960)	(614)	(123)	**2,081**
29	2036-37	682,949	493,125	**4,936**	(65)	(987)	**3,884**	(987)	(637)	(138)	**2,122**
30	2037-38	696,638	506,815	**5,073**	(67)	(1,015)	**3,992**	(1,015)	(660)	(153)	**2,164**
31	2038-39	710,602	520,778	**5,213**	(69)	(1,043)	**4,101**	(1,043)	(683)	(169)	**2,207**
32	2039-40	724,844	535,021	**5,355**	(71)	(1,071)	**4,213**	(1,071)	(707)	(185)	**2,251**
33	2040-41	739,371	549,548	**5,500**	(73)	(1,100)	**4,328**	(1,100)	(731)	(201)	**2,295**
34	2041-42	754,189	564,366	**5,649**	(75)	(1,130)	**4,444**	(1,130)	(756)	(218)	**2,341**
				123,815	(1,634)	(24,763)	**97,418**	(24,763)	(14,243)	(1,661)	**56,750**

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Original)

04/23/09

Historical Assessed Values

Table 3

Secured (2)	Base Year 1995-96 (3)	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Land	188,283,837	50,939,812	54,747,096	53,618,981	56,891,750	59,482,931	62,867,916	68,621,894	79,241,699	92,298,209	103,778,478	110,001,822
Impts	1,539,619	147,597,310	151,156,356	149,026,867	162,098,430	159,191,525	166,670,036	180,600,864	220,695,008	239,987,825	267,403,968	290,448,273
Pers Prop	0	9,677,019	7,809,860	6,624,058	7,290,289	5,989,605	5,970,753	6,987,812	7,286,237	8,612,299	8,414,436	9,658,992
Exemptions	0	(15,473,526)	(12,635,720)	(14,979,420)	(13,210,783)	(8,523,896)	(13,963,671)	(19,929,080)	(35,067,463)	(53,340,887)	(55,962,378)	(65,514,341)
Total Secured	**189,823,456**	**192,740,615**	**201,077,592**	**194,290,486**	**213,069,686**	**216,140,165**	**221,545,034**	**236,281,490**	**272,155,481**	**287,557,446**	**323,634,504**	**344,594,746**
Unsecured												
Land	0	6,069,305	6,166,647	5,757,874	6,060,383	3,156,171	2,739,300	3,312,913	3,382,855	3,334,152	3,416,094	3,004,968
Impts	0	26,142,521	26,648,414	27,019,475	33,488,932	28,333,769	27,800,611	31,851,923	33,557,041	34,016,675	34,680,129	41,323,985
Pers Prop	0	18,379,274	18,990,185	19,365,987	20,696,596	23,214,916	23,519,567	26,009,140	21,791,523	23,734,177	26,489,713	35,409,700
Exemptions	0	(39,704,070)	(40,391,575)	(40,927,113)	(48,573,370)	(42,741,350)	(25,001,910)	(44,108,591)	(43,633,061)	(44,184,751)	(45,069,936)	(46,592,077)
Total Unsecured	**0**	**10,887,030**	**11,413,671**	**11,216,223**	**11,672,541**	**11,963,506**	**29,057,568**	**17,065,385**	**15,098,358**	**16,900,253**	**19,516,000**	**33,146,576**
GRAND TOTAL	**189,823,456**	**203,627,645**	**212,491,263**	**205,506,709**	**224,742,227**	**228,103,671**	**250,602,602**	**253,346,875**	**287,253,839**	**304,457,699**	**343,150,504**	**377,741,322**
Incremental Value		13,804,189	22,667,807	15,683,253	34,918,771	38,280,215	60,779,146	63,523,419	97,430,383	114,634,243	153,327,048	187,917,866
Annual Value % Change		2.10%	4.35%	-3.29%	9.36%	1.50%	9.86%	1.10%	13.38%	5.99%	12.71%	10.08%

(1) Source: County of Merced.
(2) Secured values include state assessed non-unitary utility property.
(3) Base Year Values are not broken out by Secured and Unsecured values, Land, Improvements, Personal Property and Exemptions when provided by the Auditor Controller.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Original)
TOP TEN TAXABLE PROPERTY OWNERS
For Fiscal Year 2008-09
Table 4

04/23/09

		Secured			Unsecured			Total			
		Value	Parcels	% of Sec. AV	Value	Parcels	% of Unsec. AV	Value	% of Total Value	% of Inc. Value	Use Code
1.	Fornia Hospitality Group LLC	$8,271,710	2	2.40%	$0	0	0.00%	$8,271,710	2.19%	4.40%	Commercial
2.	Playa Merced LLC	$7,647,460	3	2.22%	$0	0	0.00%	$7,647,460	2.02%	4.07%	Commercial
3.	Gagan Ringo Gulati	$7,566,386	1	2.20%	$0	0	0.00%	$7,566,386	2.00%	4.03%	Hampton Inn & Suites
4.	Maxs Partnership	$7,059,678	2	2.05%	$0	0	0.00%	$7,059,678	1.87%	3.76%	Commercial
5.	Savemart of Modesto, a Corporation	$0	0	0.00%	$6,553,680	1	19.77%	$6,553,680	1.73%	3.49%	Unsecured Commercial
6.	CVP Acquisition Corporation	$4,785,650	1	1.39%	$0	1	0.00%	$4,785,650	1.27%	2.55%	Industrial
7.	Longs Drug Stores, Californai	$4,586,720	1	1.33%	$0	0	0.00%	$4,586,720	1.21%	2.44%	Commercial
8.	PAQ Inc.	$0	0	0.00%	$4,301,396	0	12.98%	$4,301,396	1.14%	2.29%	Commercial
9.	Mahinder Singh	$4,002,924	2	1.16%	$0	0	0.00%	$4,002,924	1.06%	2.13%	Commercial
10.	Lyons Investment, a Partnership	$3,991,090	1	1.16%	$0	0	0.00%	$3,991,090	1.06%	2.12%	Industrial
	Top Ten Property Owner Totals:	**$47,911,618**	**13**		**$10,855,076**	**2**		**$58,766,694**			
	Project Area Totals:	$344,594,746		13.90%	$33,146,576		32.75%	$377,741,322	15.56%		
	Project Area Incremental Value:	$154,771,290		30.96%	$33,146,576		32.75%	$187,917,866	31.27%		

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Original)
New Development

04/23/09

Table 5

000's omitted

Real Property	Sq. Ft./ # Units	Unit Value	Total Value	Less Existing	Value Added	Start	Complete	2008-09	2009-10	2010-11	2011-12	2012-13
Playa Merced Shopping Center Site Development	53,930	$65.00	$3,505,450	$0	$3,505	6/15/2007	1/31/2008	$0	$3,505	$0	$0	$0
Playa Merced Commercial Shell Building	15,444	$150.00	$2,316,600	$0	$2,317	6/14/2007	6/14/2008	$0	$2,317	$0	$0	$0
Residential Duplex - 616 W. 6th Street	694	$130.00	$90,220	$25,645	$65	1/24/2007	9/1/2007	$0	$65	$0	$0	$0
Residential Duplex - 521 Canal Street	2,030	$130.00	$263,900	$96,900	$167	4/6/2007	12/31/2007	$0	$167	$0	$0	$0
Single Family Residential - 1037 W. 11th Street	1,018	$130.00	$132,340	$47,217	$85	4/9/2007	12/31/2007	$0	$85	$0	$0	$0
Hotel Development - 151 S. Parsons	49,703	$150.00	$7,455,450	$0	$7,455	12/2/2007	12/31/2008	$0	$7,455	$0	$0	$0
Commercial Building - 1459 Martin Luther King Way	11,663	$150.00	$1,749,450	$122,860	$1,627	10/15/2007	10/15/2008	$0	$1,627	$0	$0	$0
Single Family Residential - 850 W. 13th Street	1,419	$130.00	$184,470	$118,189	$66	7/27/2007	7/27/2008	$0	$66	$0	$0	$0
Residential Duplex - 850 W. 13th Street	1,902	$130.00	$247,260	$0	$247	7/27/2007	7/27/2008	$0	$247	$0	$0	$0
Single Family Residential - 939 W. 6th Street	1,550	$130.00	$201,500	$29,813	$172	12/13/2007	12/13/2008	$0	$172	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
Transfers of Ownership From 1/1 to 12/31/2008	40	Lump Sum	$6,630,500	$8,180,190	($1,550)			$0	($1,550)	$0	$0	$0
Total Real Property:			**$22,777,140**	**$8,620,814**	**$14,156**				**$14,156**	**$0**	**$0**	**$0**

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 1)
Projection of Incremental Taxable Value & Tax Increment Revenue
(000's Omitted)

04/23/09

Table 1

Taxable Values (1)		**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Real Property (2)		16,633	18,494	18,863	19,241	19,626	20,018	20,418	20,827	21,243	21,668
Personal Property (3)		3,201	3,201	3,201	3,201	3,201	3,201	3,201	3,201	3,201	3,201
Total Projected Value		**19,835**	**21,695**	**22,065**	**22,442**	**22,827**	**23,219**	**23,620**	**24,028**	**24,445**	**24,870**
Taxable Value over Base	**11,655**	**8,180**	**10,040**	**10,410**	**10,787**	**11,172**	**11,565**	**11,965**	**12,374**	**12,790**	**13,215**
Gross Tax Increment Revenue (4)		82	100	104	108	112	116	120	124	128	132
Unitary Tax Revenue (5)		0	0	0	0	0	0	0	0	0	0
Gross Revenues		**82**	**101**	**104**	**108**	**112**	**116**	**120**	**124**	**128**	**132**
SB 2557 Admin. Fee (6)		(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)
Housing Set Aside Requirement (7)		(16)	(20)	(21)	(22)	(22)	(23)	(24)	(25)	(26)	(26)
Tax Revenues		**65**	**79**	**82**	**85**	**88**	**91**	**94**	**98**	**101**	**104**
Subordinate Payments											
Tier 1 Passthrough to All Taxing Entities (8)		(16)	(20)	(21)	(22)	(22)	(23)	(24)	(25)	(26)	(26)
Tier 2 Passthrough to All Taxing Entities (8)		0	0	0	0	(1)	(1)	(2)	(3)	(3)	(4)
Tier 3 Passthrough to All Taxing Entities (8)		0	0	0	0	0	0	0	0	0	0
Net Tax Revenues		**48**	**59**	**61**	**63**	**65**	**67**	**68**	**70**	**72**	**74**

(1) Taxable values as reported by Merced County.

(2) Real property consists of land and improvements. Increased for inflation at 2% annually, for new development and for transfers of ownership that have occurred after the January 1, 2008 lien date for fiscal year 2008-09 (See Table 5).

(3) Personal property is held constant at 2008-09 level.

(4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. All override rates within the Project Area were approved by voters after 1988. The tax rate applicable to Project Area revenues is assumed to remain at $1.00 per $100 of incremental value.

(5) Unitary Revenue is held constant at 2007-08 level.

(6) County Administration fee is estimated at 1.32% of Gross Revenue.

(7) Housing Set Aside Requirement is calculated at 20% of Gross Revenue.

(8) Pursuant to H & S Code Section 33607.5 Taxing Entities receive their shares of 25% of total tax increment revenue net of housing set aside (Tier 1). In addition, after year 10 Taxing Entities receive 21% of tax revenue on incremental value above the year 10 value net of housing set aside (Tier 2). After year 30 Taxing Entities receive 14% of tax revenue on incremental value above the year 30 value net of housing set aside (Tier 3). The City of Merced is considered a taxing entity and has electeded to receive its share of this pass through amount. These tax sharing payments are subordinate to payment of debt service on the Bonds.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 1)

04/23/09

PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE

(000s Omitted)

Table 2

		Total Taxable Value	Taxable Value Over Base 11,655	Gross Tax Revenue	SB 2557 Charge	Housing Set-Aside	Tax Revenues	Subordinate Statutory Tax Sharing Payments Tier 1	Tier 2	Tier 3	Net Tax Revenues
1	2008-09	19,835	8,180	**82**	(1)	(16)	**65**	(16)	0	0	**48**
2	2009-10	21,695	10,040	**101**	(1)	(20)	**79**	(20)	0	0	**59**
3	2010-11	22,065	10,410	**104**	(1)	(21)	**82**	(21)	0	0	**61**
4	2011-12	22,442	10,787	**108**	(1)	(22)	**85**	(22)	0	0	**63**
5	2012-13	22,827	11,172	**112**	(1)	(22)	**88**	(22)	(1)	0	**65**
6	2013-14	23,219	11,565	**116**	(2)	(23)	**91**	(23)	(1)	0	**67**
7	2014-15	23,620	11,965	**120**	(2)	(24)	**94**	(24)	(2)	0	**68**
8	2015-16	24,028	12,374	**124**	(2)	(25)	**98**	(25)	(3)	0	**70**
9	2016-17	24,445	12,790	**128**	(2)	(26)	**101**	(26)	(3)	0	**72**
10	2017-18	24,870	13,215	**132**	(2)	(26)	**104**	(26)	(4)	0	**74**
11	2018-19	25,303	13,648	**137**	(2)	(27)	**108**	(27)	(5)	0	**75**
12	2019-20	25,745	14,090	**141**	(2)	(28)	**111**	(28)	(6)	0	**77**
13	2020-21	26,196	14,541	**146**	(2)	(29)	**115**	(29)	(6)	0	**79**
14	2021-22	26,656	15,001	**150**	(2)	(30)	**118**	(30)	(7)	0	**81**
15	2022-23	27,125	15,470	**155**	(2)	(31)	**122**	(31)	(8)	0	**83**
16	2023-24	27,603	15,949	**160**	(2)	(32)	**126**	(32)	(9)	0	**85**
17	2024-25	28,091	16,437	**165**	(2)	(33)	**130**	(33)	(10)	0	**87**
18	2025-26	28,589	16,934	**170**	(2)	(34)	**133**	(34)	(10)	0	**89**
19	2026-27	29,097	17,442	**175**	(2)	(35)	**137**	(35)	(11)	0	**91**
20	2027-28	29,615	17,960	**180**	(2)	(36)	**142**	(36)	(12)	0	**94**
21	2028-29	30,143	18,488	**185**	(2)	(37)	**146**	(37)	(13)	0	**96**
22	2029-30	30,682	19,027	**191**	(3)	(38)	**150**	(38)	(14)	0	**98**
23	2030-31	31,232	19,577	**196**	(3)	(39)	**154**	(39)	(15)	0	**100**
24	2031-32	31,792	20,137	**202**	(3)	(40)	**159**	(40)	(16)	0	**103**
25	2032-33	32,364	20,709	**207**	(3)	(41)	**163**	(41)	(17)	(1)	**104**
26	2033-34	32,947	21,292	**213**	(3)	(43)	**168**	(43)	(18)	(1)	**106**
27	2034-35	33,542	21,887	**219**	(3)	(44)	**172**	(44)	(19)	(2)	**108**
28	2035-36	34,149	22,494	**225**	(3)	(45)	**177**	(45)	(20)	(3)	**110**
29	2036-37	34,768	23,113	**231**	(3)	(46)	**182**	(46)	(21)	(3)	**112**
30	2037-38	35,399	23,745	**238**	(3)	(48)	**187**	(48)	(22)	(4)	**114**
31	2038-39	36,043	24,388	**244**	(3)	(49)	**192**	(49)	(23)	(5)	**116**
32	2039-40	36,700	25,045	**251**	(3)	(50)	**197**	(50)	(24)	(6)	**118**
33	2040-41	37,370	25,715	**257**	(3)	(51)	**203**	(51)	(25)	(6)	**120**
34	2041-42	38,053	26,399	**264**	(3)	(53)	**208**	(53)	(26)	(7)	**122**
35	2042-43	38,750	27,096	**271**	(4)	(54)	**213**	(54)	(27)	(8)	**124**
36	2043-44	39,461	27,807	**278**	(4)	(56)	**219**	(56)	(29)	(9)	**126**
37	2044-45	40,187	28,532	**286**	(4)	(57)	**225**	(57)	(30)	(9)	**128**
38	2045-46	40,926	29,272	**293**	(4)	(59)	**231**	(59)	(31)	(10)	**131**
				6,959	(92)	(1,392)	**5,475**	(1,392)	(485)	(74)	**3,525**

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 1)

Historical Assessed Values 04/23/09

Table 3

Secured (2)	Base Year 1999-00	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Land	2,678,132	873,915	891,391	909,216	926,189	971,741	991,174	1,010,995	1,897,703
Impts	0	1,897,570	1,935,520	1,974,228	2,011,084	2,128,655	2,169,114	2,212,225	2,497,912
Pers Prop	0	3,993	3,993	3,993	3,993	0	0	0	0
Exemptions	0	0	0	0	0	0	0	0	0
Total Secured	**2,678,132**	**2,775,478**	**2,830,904**	**2,887,437**	**2,941,266**	**3,100,396**	**3,160,288**	**3,223,220**	**4,395,615**
Unsecured									
Land	0	0	0	0	0	0	0	0	0
Impts	0	0	10,922,655	12,217,182	13,982,343	13,858,782	14,243,807	15,092,204	12,237,841
Pers Prop	8,976,584	0	2,316,009	2,168,991	2,588,182	3,093,842	3,106,590	3,236,372	3,201,450
Exemptions	0	0	0	0	0	0	0	0	0
Total Unsecured	**8,976,584**	**0**	**13,238,664**	**14,386,173**	**16,570,525**	**16,952,624**	**17,350,397**	**18,328,576**	**15,439,291**
GRAND TOTAL	**11,654,716**	**2,775,478**	**16,069,568**	**17,273,610**	**19,511,791**	**20,053,020**	**20,510,685**	**21,551,796**	**19,834,906**
Incremental Value		(8,879,238)	4,414,852	5,618,894	7,857,075	8,398,304	8,855,969	9,897,080	8,180,190
Annual Value % Change			478.98%	7.49%	12.96%	2.77%	2.28%	5.08%	-7.97%

(1) Source: County of Merced
(2) Secured values include state assessed non-unitary utility property.
(3) Base Year Values are not completely broken out by Land, Improvements, Personal Property and Exemptions when provided by the Auditor Controller.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 1)
TOP TEN TAXABLE PROPERTY OWNERS
For Fiscal Year 2008-09

04/23/09

Table 4

		Secured			Unsecured			Total			
		Value	Parcels	% of Sec. AV	Value	Parcels	% of Unsec. AV	Value	% of Total Value	% of Inc. Value	Use Code
1.	New Werner Holding Co.	$0	0	0.00%	$14,458,210	2	93.65%	$14,458,210	72.89%	176.75%	Unsecured
2.	Lyons Investment, A Partnership	$1,700,260	2	38.68%	$0	0	0.00%	$1,700,260	8.57%	20.79%	Industrial
3.	Sums Up Investors LLC	$1,585,200	1	36.06%	$0	0	0.00%	$1,585,200	7.99%	19.38%	Industrial
4.	Brian J. Damiani, Trustee	$664,457	1	15.12%	$0	0	0.00%	$664,457	3.35%	8.12%	Industrial
5.	Merced Screw Products, Inc.	$0	0	0.00%	$557,601	1	3.61%	$557,601	2.81%	6.82%	Unsecured
6.	CCLW LLC	$445,698	1	10.14%	$0	0	0.00%	$445,698	2.25%	5.45%	Commercial
7.	Toyota Motor Credit Corporation	$0	0	0.00%	$384,660	1	2.49%	$384,660	1.94%	4.70%	Unsecured
8.	RJMS Corporation	$0	0	0.00%	$18,920	1	0.12%	$18,920	0.10%	0.23%	Unsecured
9.	Robert Esau	$0	0	0.00%	$19,900	1	0.13%	$19,900	0.10%	0.24%	Unsecured
10.		$0	0	0.00%	$0	0	0.00%	$0	0.00%	0.00%	
	Top Ten Property Owner Totals:	**$4,395,615**	**5**		**$15,439,291**	**6**		**$19,834,906**			
	Project Area Totals:	$4,395,615		100.00%	$15,439,291		100.00%	$19,834,906	100.00%		
	Project Area Incremental Value:	$1,717,483		255.93%	$6,462,707		238.90%	$8,180,190	242.47%		

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 1)
New Development

04/23/09

Table 5

000's omitted

Real Property	Sq. Ft./ # Units	Unit Value	Total Value	Less Existing	Value Added	Start	Complete	2008-09	2009-10	2010-11	2011-12	2012-13
Lyons Investments Industrial Bldgs. - 140 Macready Drive	20,000	$80.00	$1,600,000	$72,544	$1,527		8/1/2008	$0	$1,527	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
Transfers of Ownership From 1/1 to 07/1/2008	0	Lump Sum	$0	$0	$0			$0	$0	$0	$0	$0
Total Real Property:			$1,600,000	$72,544	$1,527				$1,527	$0	$0	$0

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 2)
Projection of Incremental Taxable Value & Tax Increment Revenue
(000's Omitted)

04/23/09

Table 1

Taxable Values (1)		**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Real Property (2)		220,387	221,995	226,435	230,963	235,583	240,294	245,100	250,002	255,002	260,102
Personal Property (3)		5,861	5,861	5,861	5,861	5,861	5,861	5,861	5,861	5,861	5,861
Total Projected Value		**226,248**	**227,856**	**232,296**	**236,825**	**241,444**	**246,156**	**250,961**	**255,863**	**260,863**	**265,964**
Taxable Value over Base	**144,191**	**82,057**	**83,665**	**88,105**	**92,634**	**97,253**	**101,965**	**106,771**	**111,673**	**116,673**	**121,773**
Gross Tax Increment Revenue (4)		821	837	881	926	973	1,020	1,068	1,117	1,167	1,218
Unitary Tax Revenue (5)		0	0	0	0	0	0	0	0	0	0
Gross Revenues		**821**	**837**	**881**	**926**	**973**	**1,020**	**1,068**	**1,117**	**1,167**	**1,218**
SB 2557 Admin. Fee (6)		(11)	(11)	(12)	(12)	(13)	(13)	(14)	(15)	(15)	(16)
Housing Set Aside Requirement (7)		(164)	(167)	(176)	(185)	(195)	(204)	(214)	(223)	(233)	(244)
Tax Revenues		**646**	**658**	**693**	**729**	**765**	**802**	**840**	**879**	**918**	**958**
Subordinate Payments											
Tier 1 Passthrough to All Taxing Entities (8)		(164)	(167)	(176)	(185)	(195)	(204)	(214)	(223)	(233)	(244)
Tier 2 Passthrough to All Taxing Entities (8)		0	0	0	0	0	0	0	0	(8)	(17)
Tier 3 Passthrough to All Taxing Entities (8)		0	0	0	0	0	0	0	0	0	0
Net Tax Revenues		**482**	**491**	**517**	**544**	**571**	**598**	**627**	**655**	**676**	**698**

(1) Taxable values as reported by Merced County.

(2) Real property consists of land and improvements. Increased for inflation at 2% annually, for new development and for transfers of ownership that have occurred after the January 1, 2008 lien date for fiscal year 2008-09 (See Table 5).

(3) Personal property is held constant at 2008-09 level.

(4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. All override rates within the Project Area were approved by voters after 1988. The tax rate applicable to Project Area revenues is assumed to remain at $1.00 per $100 of incremental value.

(5) Unitary Revenue is held constant at 2007-08 level.

(6) County Administration fee is estimated at 1.32% of Gross Revenue.

(7) Housing Set Aside Requirement is calculated at 20% of Gross Revenue.

(8) Pursuant to H & S Code Section 33607.5 Taxing Entities receive their shares of 25% of total tax increment revenue net of housing set aside (Tier 1). In addition, after year 10 Taxing Entities receive 21% of tax revenue on incremental value above the year 10 value net of housing set aside (Tier 2). After year 30 Taxing Entities receive 14% of tax revenue on incremental value above the year 30 value net of housing set aside (Tier 3). The City of Merced is considered a taxing entity and has electeded to receive its share of this pass through amount. These tax sharing payments are subordinate to payment of debt service on the Bonds.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 2)
PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE 04/23/09
(000s Omitted)
Table 2

		Total Taxable Value	Taxable Value Over Base 144,191	Gross Tax Revenue	SB 2557 Charge	Housing Set-Aside	Tax Revenues	Subordinate Statutory Tax Sharing Payments Tier 1	Tier 2	Tier 3	Net Tax Revenues
1	2008-09	226,248	82,057	**821**	(11)	(164)	**646**	(164)	0	0	**482**
2	2009-10	227,856	83,665	**837**	(11)	(167)	**658**	(167)	0	0	**491**
3	2010-11	232,296	88,105	**881**	(12)	(176)	**693**	(176)	0	0	**517**
4	2011-12	236,825	92,634	**926**	(12)	(185)	**729**	(185)	0	0	**544**
5	2012-13	241,444	97,253	**973**	(13)	(195)	**765**	(195)	0	0	**571**
6	2013-14	246,156	101,965	**1,020**	(13)	(204)	**802**	(204)	0	0	**598**
7	2014-15	250,961	106,771	**1,068**	(14)	(214)	**840**	(214)	0	0	**627**
8	2015-16	255,863	111,673	**1,117**	(15)	(223)	**879**	(223)	0	0	**655**
9	2016-17	260,863	116,673	**1,167**	(15)	(233)	**918**	(233)	(8)	0	**676**
10	2017-18	265,964	121,773	**1,218**	(16)	(244)	**958**	(244)	(17)	0	**698**
11	2018-19	271,166	126,975	**1,270**	(17)	(254)	**999**	(254)	(26)	0	**719**
12	2019-20	276,472	132,281	**1,323**	(17)	(265)	**1,041**	(265)	(35)	0	**742**
13	2020-21	281,884	137,693	**1,377**	(18)	(275)	**1,083**	(275)	(44)	0	**764**
14	2021-22	287,404	143,214	**1,432**	(19)	(286)	**1,127**	(286)	(53)	0	**787**
15	2022-23	293,035	148,844	**1,488**	(20)	(298)	**1,171**	(298)	(62)	0	**811**
16	2023-24	298,779	154,588	**1,546**	(20)	(309)	**1,216**	(309)	(72)	0	**835**
17	2024-25	304,637	160,446	**1,604**	(21)	(321)	**1,262**	(321)	(82)	0	**860**
18	2025-26	310,613	166,422	**1,664**	(22)	(333)	**1,309**	(333)	(92)	0	**885**
19	2026-27	316,708	172,517	**1,725**	(23)	(345)	**1,357**	(345)	(102)	0	**910**
20	2027-28	322,925	178,734	**1,787**	(24)	(357)	**1,406**	(357)	(113)	0	**936**
21	2028-29	329,266	185,075	**1,851**	(24)	(370)	**1,456**	(370)	(123)	0	**963**
22	2029-30	335,734	191,543	**1,915**	(25)	(383)	**1,507**	(383)	(134)	0	**990**
23	2030-31	342,331	198,140	**1,981**	(26)	(396)	**1,559**	(396)	(145)	0	**1,017**
24	2031-32	349,061	204,870	**2,049**	(27)	(410)	**1,612**	(410)	(157)	0	**1,046**
25	2032-33	355,925	211,734	**2,117**	(28)	(423)	**1,666**	(423)	(168)	0	**1,074**
26	2033-34	362,926	218,735	**2,187**	(29)	(437)	**1,721**	(437)	(180)	0	**1,104**
27	2034-35	370,067	225,876	**2,259**	(30)	(452)	**1,777**	(452)	(192)	0	**1,134**
28	2035-36	377,351	233,161	**2,332**	(31)	(466)	**1,835**	(466)	(204)	0	**1,164**
29	2036-37	384,781	240,590	**2,406**	(32)	(481)	**1,893**	(481)	(217)	(8)	**1,187**
30	2037-38	392,360	248,169	**2,482**	(33)	(496)	**1,953**	(496)	(229)	(17)	**1,210**
31	2038-39	400,090	255,899	**2,559**	(34)	(512)	**2,013**	(512)	(242)	(25)	**1,234**
32	2039-40	407,974	263,783	**2,638**	(35)	(528)	**2,075**	(528)	(256)	(34)	**1,258**
33	2040-41	416,016	271,826	**2,718**	(36)	(544)	**2,139**	(544)	(269)	(43)	**1,283**
34	2041-42	424,220	280,029	**2,800**	(37)	(560)	**2,203**	(560)	(283)	(52)	**1,308**
35	2042-43	432,587	288,396	**2,884**	(38)	(577)	**2,269**	(577)	(297)	(62)	**1,334**
36	2043-44	441,121	296,930	**2,969**	(39)	(594)	**2,336**	(594)	(311)	(71)	**1,360**
37	2044-45	449,826	305,636	**3,056**	(40)	(611)	**2,405**	(611)	(326)	(81)	**1,386**
38	2045-46	458,706	314,515	**3,145**	(42)	(629)	**2,475**	(629)	(341)	(91)	**1,414**
39	2046-47	467,763	323,572	**3,236**	(43)	(647)	**2,546**	(647)	(356)	(101)	**1,441**
40	2047-48	477,001	332,810	**3,328**	(44)	(666)	**2,619**	(666)	(372)	(112)	**1,470**
41	2048-49	486,423	342,233	**3,422**	(45)	(684)	**2,693**	(684)	(387)	(122)	**1,499**
42	2049-50	496,035	351,844	**3,518**	(46)	(704)	**2,768**	(704)	(403)	(133)	**1,528**
				83,096	(1,097)	(16,619)	**65,380**	(16,619)	(6,298)	(954)	**41,509**

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 2)

Historical Assessed Values (1)

Table 3

04/23/09

Secured (2)	Base Year 2004-05 (3)	2006-07 (4)	2007-08	2008-09
Land	46,063,204	67,836,434	82,653,750	82,937,329
Impts	118,773,079	147,594,430	150,846,937	147,998,510
Pers Prop	9,031,187	4,700,295	5,960,055	5,861,145
Exemptions	(29,676,632)	(24,606,602)	(23,624,996)	(18,898,442)
Total Secured	**144,190,838**	**195,524,557**	**215,835,746**	**217,898,542**
Unsecured				
Land	0	0	1,454,049	1,534,760
Impts	0	0	5,564,209	6,814,528
Pers Prop	0	6,290,367	0	0
Exemptions	0	0	0	0
Total Unsecured	**0**	**6,290,367**	**7,018,258**	**8,349,288**
GRAND TOTAL	**144,190,838**	**201,814,924**	**222,854,004**	**226,247,830**
	Incremental Value	57,624,086	78,663,166	82,056,992
	Annual Value % Change		10.42%	1.52%

(1) Source: County of Merced. Base year and current year values have been estimated using project area boundary maps, roll values and SBOE data. Values must be confirmed.

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

(3) Base Year Values are not completely broken out by Land, Improvements, Personal Property and Exemptions when provided by the Auditor Controller.

(4) Values for 2006-07 are estimated from tax roll data.

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 2)
TOP TEN TAXABLE PROPERTY OWNERS
For Fiscal Year 2008-09

04/23/09

Table 4

		Secured			Unsecured			Total			
		Value	Parcels	% of Sec. AV	Value	Parcels	% of Unsec. AV	Value	% of Total Value	% of Inc. Value	Use Code
1.	Catholic Healthcare West	$11,779,491	4	5.41%	$0	0	0.00%	$11,779,491	5.21%	14.36%	Mercy Hospital of Merced
2.	Wal Mart Stores East LP	$9,238,752	2	4.24%	$0	0	0.00%	$9,238,752	4.08%	11.26%	Retail Store
3.	Merced Lodging, A Corporation	$3,895,673	1	1.79%	$0	0	0.00%	$3,895,673	1.72%	4.75%	Commercial
4.	G Street Ministorage LLC	$2,337,490	3	1.07%	$0	0	0.00%	$2,337,490	1.03%	2.85%	Ministorage/Vacant
5.	Pamela B. Anderson	$2,294,846	5	1.05%	$0	0	0.00%	$2,294,846	1.01%	2.80%	Vacant Land
6.	Neal Partners LP	$2,096,860	4	0.96%	$0	0	0.00%	$2,096,860	0.93%	2.56%	Industrial/Vacant/Residential
7.	Lorenzi Land Investment LP	$1,683,517	4	0.77%	$0	0	0.00%	$1,683,517	0.74%	2.05%	Commercial/Residential
8.	Jose G. Espinoza Trustee	$1,674,856	4	0.77%	$0	0	0.00%	$1,674,856	0.74%	2.04%	Multifamily Residential
9.	Deutsche Bank National Company Trust	$1,547,454	10	0.71%	$0	0	0.00%	$1,547,454	0.68%	1.89%	Bank Owned - Single Family
10.	Ranchwood Homes Corporation	$0	0	0.00%	$1,426,010	1	17.08%	$1,426,010	0.63%	1.74%	Unsecured
	Top Ten Property Owner Totals:	**$36,548,939**	**37**		**$1,426,010**	**1**		**$37,974,949**			
	Project Area Totals:	$217,898,542		16.77%	$8,349,288		17.08%	$226,247,830	16.78%		
	Project Area Incremental Value:	$73,707,704		49.59%	$8,349,288		17.08%	$82,056,992	46.28%		

Redevelopment Agency of the City of Merced
Gateways Redevelopment Project (Annex 2)
New Development

04/23/09

Table 5

000's omitted

Real Property	Sq. Ft./ # Units	Unit Value	Total Value	Less Existing	Value Added	Start	Complete	2008-09	2009-10	2010-11	2011-12	2012-13
Residential Duplex - 14 W. 23rd Street	1,505	$150.00	$225,750	$0	$226	3/26/2007	3/1/2008	$0	$226	$0	$0	$0
Single Family Residential - 430 E. Santa Fe	1,800	$150.00	$270,000	$0	$270	3/5/2008	12/31/2008	$0	$270	$0	$0	$0
Single Family Residential - 460 E. Santa Fe	1,800	$150.00	$270,000	$0	$270	3/5/2008	12/31/2008	$0	$270	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
	0	$0.00	$0	$0	$0			$0	$0	$0	$0	$0
Transfers of Ownership From 1/1 to 07/1/2008	61	Lump Sum	$6,137,600	$9,702,874	($3,565)			$0	($3,565)	$0	$0	$0
Total Real Property:			$6,903,350	$9,702,874	($2,800)				($2,800)	$0	$0	$0

APPENDIX E

FORM OF BOND COUNSEL OPINION

May ___, 2009

Redevelopment Agency of the City of Merced
678 W. 18th Street
Merced, California 95340

Opinion of Bond Counsel
with reference to

$__________
Redevelopment Agency of the City of Merced
Merced Gateways Redevelopment Project
2009 Tax Allocation Bonds, Series A

Ladies and Gentlemen:

In our role as Bond Counsel to the Redevelopment Agency of the City of Merced (the "Agency"), we have examined certified copies of the proceedings taken in connection with the issuance by the Agency of its $__________ aggregate principal amount of its Merced Gateways Redevelopment Project, 2009 Tax Allocation Bonds, Series A (the "Bonds"). We have also examined supplemental documents furnished to us and have obtained such certificates and documents from public officials as we have deemed necessary for the purposes of this opinion. The Bonds are issued under the Community Redevelopment Law (Part 1 of Division 24 of the Health and Safety Code of the State of California), as in existence on the Closing Date (the "Redevelopment Law"), and pursuant to an Indenture of Trust, dated as of December 1, 2001 (the "2001 Bonds Indenture"), by and between the Agency and U.S. Bank Trust National Association, as predecessor trustee, as supplemented and amended by the First Supplement to Indenture of Trust, dated as of May 1, 2009 (the "First Supplement"), by and between the Agency and U.S. Bank National Association, as trustee for the Bonds (the "Trustee") (the 2001 Bonds Indenture, as so supplemented and amended, is referred to herein as the "Indenture"). The Bonds are being issued to (i) fund certain redevelopment activities of benefit to the Merced Gateways Redevelopment Project Area, (ii) finance redevelopment housing activities of the Agency, (iii) fund an additional deposit to the debt service reserve fund for the Bonds and the 2001 Bonds and (iv) pay costs incurred in connection with the issuance, sale, and delivery of the Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

The Bonds are issued as fully registered bonds in the denomination of $5,000 or any integral multiple thereof. The Bonds are dated, and bear interest from, the Closing Date. Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2009.

The Bonds are subject to redemption prior to maturity as provided in the Indenture.

Based upon the foregoing, we are of the opinion that:

1. The Indenture has been duly and validly authorized, executed and delivered by the Agency and, assuming such Indenture constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Agency, enforceable against the Agency in accordance with its terms, and the Bonds are entitled to the benefits of the Indenture.

2. The proceedings for the issuance of the Bonds have been taken in accordance with the laws and Constitution of the State of California, and the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers, constitute legal and binding special obligations of the Agency enforceable in accordance with their terms.

3. The Bonds are secured by a first pledge of the Tax Revenues and all moneys in the funds and accounts so specified and provided for in the Indenture on a parity with the 2001 Bonds and other obligations to be issued under the Indenture.

4. The Internal Revenue Code of 1986 (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The Agency has covenanted in the Indenture to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and will not be an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code.

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

The opinions expressed in paragraphs (1) and (2) above are qualified to the extent the enforceability of the Indenture and the Bonds may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Indenture and the Bonds is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F
FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Redevelopment Agency of the City of Merced (the "Agency") and accepted by Willdan Financial Services, as Dissemination Agent (the "Dissemination Agent"), in connection with the issuance of $13,120,000 Redevelopment Agency of the City of Merced, Merced Gateways Redevelopment Project, 2009 Tax Allocation Bonds, Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2001 (the "2001 Bonds Indenture"), by and between the Agency and U.S. Bank Trust National Association, as predecessor trustee, as supplemented by the First Supplement to Indenture of Trust, dated as of May 1, 2009 (the "First Supplement"), by and between the Agency and U.S. Bank National Association, as trustee (the "Trustee") (the 2001 Bonds Indenture as so supplemented being herein referred to as the "Indenture"). The Agency and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Agency and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

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

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

"*Annual Report Date*" means the date that is nine (9) months after the end of the Agency's fiscal year (currently March 31 based on the Agency's fiscal year end of June 30).

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

"*Disclosure Representative*" shall mean the Treasurer of the Agency or his or her designee, or such other officer or employee as the Agency shall designate in writing to the Dissemination Agent from time to time.

"*Dissemination Agent*" shall mean Willdan Financial Services, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency a written acceptance of such designation.

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" shall mean the Official Statement relating to the Bonds, dated May 19, 2009.

"*Participating Underwriters*" shall mean any or all of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

"*State*" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The Agency shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2010, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the Trustee and the Participating Underwriter. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report and later than the Annual Report Date if they are not available by that date. If the Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the Agency does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Agency shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Trustee and the Participating Underwriter.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports, if any; and

(ii) if the Dissemination Agent is other than the Agency, file a report with the Agency, with a copy to the Trustee and the Participating Underwriter, certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

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

(a) The audited financial statements of the Agency for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) An update for the last fiscal year of the financial information in Tables 4, 5, 7 and 8 located in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Agency or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Agency shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Bondholders.
4. optional, contingent or unscheduled bond calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events affecting the tax-exempt 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.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Agency promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Trustee obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Agency shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

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

(f) If the Dissemination Agent has been instructed by the Agency to report the occurrence of a Listed Event, the Dissemination Agent shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Agreement shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Agency's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Agency hereby appoints Willdan Financial Services as the initial Dissemination Agent and may, from time to time, discharge, appoint or engage any other Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Agency pursuant to this Disclosure Agreement.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency may amend this Disclosure Agreement, and any provision of this Disclosure Agreement 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 Agreement, the Agency shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Agency. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the 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 Agreement, the Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Agency or the Trustee to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may take such actions, including seeking mandate or specific performance by court order, to cause the Agency or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement by the Agency or the Dissemination Agent shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance. No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Agency satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Agency shall have refused to comply therewith within a reasonable time.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

SECTION 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Agency: Redevelopment Agency of the City of Merced
678 W. 18th Street
Merced, California 95340
Attention: Executive Director

To the Dissemination Agent: Willdan Financial Services
27368 Via Industria, Ste. 110
Temecula, California 92590

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

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Agreement to be duly executed and delivered by their respective officers as of the date first above written.

REDEVELOPMENT AGENCY OF THE CITY OF MERCED

____

Treasurer

WILLDAN FINANCIAL SERVICES

____

Corporate Trust Department

EXHIBIT A
NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person:	Redevelopment Agency of the City of Merced
Name of Issue:	Merced Gateways Redevelopment Project 2009 Tax Allocation Bonds, Series A
Date of Issuance:	May 28, 2009

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement executed by the Agency on the date of issuance of the Bonds. [The Agency anticipates that the Annual Report will be filed by______________].

Dated: ________________

WILLDAN FINANCIAL SERVICES, on behalf of the Redevelopment Agency of the City of Merced

____

[This Page Intentionally Left Blank]

APPENDIX G
BOOK-ENTRY ONLY SYSTEM

The information contained herein concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the District and the Underwriter takes no responsibility for the completeness or accuracy thereof. Neither the District nor the Underwriter cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of Maturity Value, interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 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 herein. 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.

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

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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.

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

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

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

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the District or the Paying Agent take any responsibility for the accuracy thereof.

Neither the Agency or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Agency or the Underwriter is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

[THIS PAGE INTENTIONALLY LEFT BLANK]

Printed by: ImageMaster, Inc.