

In the opinion of Orrick Herrington & Sutcliffe LLC, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2003A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2003A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2003A Bonds. See "TAX MATTERS."

\$34,810,000
REDEVELOPMENT AGENCY OF THE
CITY OF SANTA BARBARA
Central City Redevelopment Project
Tax Allocation Bonds
Series 2003A

Dated: Date of Delivery

Due: March 1, as shown on the inside cover

This cover page contains certain information for reference only, it is not a summary of all of the provisions of the Series 2003A Bonds. Prospective investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

The Redevelopment Agency of the City of Santa Barbara, Central City Redevelopment Project Series 2003A Bonds (the "Series 2003A Bonds") are being issued to finance redevelopment activities in the Central City Redevelopment Project Area (the "Project Area"), to refund all of the Agency's Outstanding Series 1993 Bonds (as defined herein), to pay the fees associated with a Reserve Surety Bond (as defined herein) to satisfy the Reserve Requirement (as defined herein), and to pay certain expenses of the transaction. The Series 2003A Bonds are being issued on a parity basis with the Agency's Outstanding Series 1995 Senior Bonds and Series 2001 Bonds, as more particularly described herein. The Outstanding Series 1995 Senior Bonds, the Series 2001 Bonds, and the Series 2003A Bonds are collectively referred to as the "Outstanding Parity Bonds." The Outstanding Parity Bonds and all bonds or other obligations issued on a parity therewith are sometimes referred to herein as the "Bonds." The Series 2003A Bonds are special obligations of the Agency and are equally and ratably secured by an irrevocable pledge of certain tax revenues derived from the Agency's Central City Redevelopment Project Area and other funds as provided in the Indenture, as amended and supplemented, pursuant to which the Outstanding Parity Bonds are issued (the "Indenture"), as further discussed herein. The Series 2003A Bonds are subject to redemption as more particularly described herein. See "SECURITY FOR THE SERIES 2003A BONDS" and "THE SERIES 2003A BONDS — Optional Redemption."

Interest with respect to the Series 2003A Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2004. The Series 2003A Bonds will be delivered in fully registered form only, and, when executed and delivered, 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 Series 2003A Bonds. See "APPENDIX H — BOOK-ENTRY ONLY SYSTEM." Beneficial ownership interests in the Series 2003A Bonds may be purchased in book-entry form only in the denomination of \$5,000 or any integral multiple thereof. The principal of, redemption price, if any, and interest on the Series 2003A Bonds are payable by the applicable Trustee. So long as Cede & Co. is the registered owner, principal of, redemption price, if any, and interest on the Series 2003A Bonds will be paid by the applicable Trustee to DTC, which will remit such principal, redemption price, if any, and interest to the Beneficial Owners (as hereinafter defined) of the applicable Series 2003A Bonds, respectively, as described herein.

The scheduled payment of principal of and interest on the Series 2003A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2003A Bonds by Ambac Assurance Corporation.

Ambac

See "BOND INSURANCE FOR THE SERIES 2003A BONDS" and "APPENDIX G — SPECIMEN INSURANCE POLICY."

Maturity Schedule
(See inside cover page)

The Series 2003A Bonds are not a debt of the City of Santa Barbara, the State of California, or any of its political subdivisions and none of said City, said State, or any of its political subdivisions is liable for the Series 2003A Bonds, and in no event will the Series 2003A Bonds be payable out of any funds or properties other than those of the Agency as set forth in the Indenture. The Series 2003A Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. Neither the members of the Agency nor any persons executing the Series 2003A Bonds are liable personally on the Series 2003A Bonds by reason of their issuance. See "SECURITY FOR THE SERIES 2003A BONDS" and "BONDOWNERS' RISKS."

The Series 2003A Bonds are offered when, as and if issued by the Agency and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Agency in connection with the Series 2003A Bonds by its general counsel, and by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. It is expected that the Series 2003A Bonds, in book-entry form, will be available for delivery in New York, New York on or about December 18, 2003.

MORGAN STANLEY

Dated: December 10, 2003

\$34,810,000
REDEVELOPMENT AGENCY OF THE
CITY OF SANTA BARBARA
Central City Redevelopment Project
Tax Allocation Bonds
Series 2003A
MATURITY SCHEDULE

<u>Maturity (March 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	\$2,085,000	2.000%	1.030%
2005	2,085,000	2.000	1.250
2006	2,145,000	2.000	1.630
2007	2,205,000	2.000	1.980
2008	1,140,000	3.500	2.330
2009	1,860,000	3.000	2.650
2010	1,920,000	3.000	3.000
2011	1,975,000	5.000	3.320
2012	2,075,000	3.500	3.580
2013	2,140,000	5.000	3.770
2014	2,245,000	5.000	3.910
2015	2,360,000	5.000	4.030*
2016	2,470,000	4.000	4.160
2017	2,570,000	5.000	4.260*
2018	2,700,000	5.000	4.360*
2019	2,835,000	4.300	4.450

* Priced to par call on March 1, 2014.

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA

AGENCY BOARD MEMBERS

Marty Blum, Chairperson
Harold Fairly, Member
Iya G. Falcone, Member
Babatunde Folayemi, Member
Gregg A. Hart, Member
Roger L. Horton, Member
Dan B. Secord, M.D., Member

AGENCY OFFICERS

James L. Armstrong, Executive Director
Paul Casey, Deputy Director
Robert D. Peirson, Fiscal Officer

SPECIAL SERVICES

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Los Angeles, California

Financial Advisor
Kelling, Northcross & Nobriga
Oakland, California

Trustee/Escrow Agent
BNY Western Trust Company
Los Angeles, California

Fiscal Consultant
Rosenow Spevacek Group, Inc.

Verification Agent
Grant Thornton LLP

No dealer, broker, salesperson or other person has been authorized by the Redevelopment Agency of the City of Santa Barbara or the City of Santa Barbara to give any information or to make any representations in connection with the offer or sale of the Series 2003A 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 any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy and there shall be no sale of the Series 2003A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2003A Bonds. Statements contained in this Official Statement which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking" statements. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements, are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Official Statement.

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

The information set forth herein has been obtained from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Agency, the City, or the Underwriter. 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 the City since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions.

This Official Statement is submitted in connection with the sale of the Series 2003A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2003A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$34,810,000
REDEVELOPMENT AGENCY OF THE
CITY OF SANTA BARBARA
CENTRAL CITY REDEVELOPMENT PROJECT
TAX ALLOCATION BONDS,
SERIES 2003A

INTRODUCTION

The following introduction is subject in all respects to more complete information set forth in this Official Statement. All descriptions and summaries of documents hereinafter set forth are qualified in their entirety by reference to each document.

General

The purpose of this Official Statement, which includes the cover page, the inside cover page, Table of Contents and Appendices (the "Official Statement"), is to provide information about the \$34,810,000 Central City Redevelopment Project, Tax Allocation Bonds, Series 2003A (the "Series 2003A Bonds") to be issued by the Redevelopment Agency of the City of Santa Barbara (the "Agency") to provide funds to finance redevelopment activities in the Central City Redevelopment Project Area (the "Project Area") as more particularly described herein, to refund all of the Outstanding Series 1993 Bonds (as defined below), to pay the fees associated with the Reserve Surety Bond (as defined below), and to pay certain expenses of the transaction.

The Agency

The City of Santa Barbara (the "City"), pursuant to the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code (the "Redevelopment Law"), activated the Agency on March 5, 1968. The seven members of the City Council serve as members of the Agency, and the Mayor currently serves as Chairperson of the Agency. City personnel provide staff support for the Agency. The City adopted the "First Amended Redevelopment Plan for the Santa Barbara Central City Redevelopment Project Area" (the "Project Area") on August 30, 1977 by City Ordinance No. 3923, which plan was last amended by the City on January 12, 1999 by Ordinance No. 5089.

Authority for Issuance of the Series 2003A Bonds

The Series 2003A Bonds are being issued pursuant to an Indenture of Trust, dated as of January 1, 1991 (the "Original Indenture"), between the Agency and Security Pacific National Bank, as trustee, as supplemented by (1) a First Supplement to Indenture of Trust, dated as of February 1, 1993 (the "First Supplement"), between the Agency and Bank of America National Trust and Savings Association, as trustee, (2) a Second Supplement to Indenture of Trust, dated as of December 1, 1995 (the "Second Supplement"), between the Agency and BNY Western Trust Company, as trustee, (3) a Third Supplement to Indenture of Trust, dated as of July 1, 2001 (the "Third Supplement"), between the Agency and BNY Western Trust Company, as trustee, and a Fourth Supplement to Indenture of Trust, dated as of December 1, 2003 (the "Fourth Supplement") between the Agency and BNY Western Trust Company, as trustee (the "Trustee") (the Fourth Supplement, together with the First Supplement, the Second Supplement, the Third Supplement, and the Original Indenture are hereinafter referred to as the "Indenture"). The Series 2003A Bonds are being issued pursuant to the Constitution and the laws of the State of California (the "State"), and in accordance with the Redevelopment Law and Section 53583 of the California Government Code.

Tax Allocation Financing

The Redevelopment 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. Taxes collected upon any increase in taxable valuation over the base roll are allocated to a redevelopment agency and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes and only receive tax revenues from the allocation of taxes under the redevelopment plan.

Security for the Series 2003A Bonds

The Series 2003A Bonds are special obligations of the Agency payable from and secured by a pledge of and lien on certain Tax Revenues (as defined herein) derived from the Project Area remaining in each year after providing for the low and moderate income Housing Set-Aside (as defined herein), if any. The Series 2003A Bonds are issued on a parity with the Agency's Central City Project 1995 Tax Allocation Refunding Bonds, Senior Series A (the "Series 1995 Senior Bonds"), \$11,585,000 principal amount of which are outstanding, and the Agency's Central City Project Tax Allocation Bonds, Series 2001 A (the "Series 2001 Bonds"), \$38,305,000 principal amount of which are outstanding. The Series 2003A Bonds, the Series 2001 Bonds, and the Series 1995 Senior Bonds are collectively referred to herein as the "Outstanding Parity Bonds." The Series 2003A Bonds are being issued in accordance with the Redevelopment Law and other applicable laws and the Constitution of the State of California.

The Agency has also issued its Central City Redevelopment Project 1995 Tax Allocation Refunding Bonds, Subordinate Series B (the "1995 Subordinate Bonds") pursuant to an Indenture between the Agency and BNY Western Trust Company dated December 1, 1995 (the "Subordinate Indenture"), \$2,545,000 of which are outstanding. The 1995 Subordinate Bonds are special obligations of the Agency payable and secured by a subordinate pledge of and lien on Tax Revenues delivered from the Project Area remaining each year after the payment of the Bonds and any Parity Debt and after providing for certain low and moderate income Housing Set-Aside, if any. The pledge of and lien on the Tax Revenues securing the payment of the 1995 Subordinate Bonds is subordinate in every respect to the first pledge of and lien on Tax Revenues securing the payment of the Bonds, and the obligation to replenish the reserve accounts with respect thereto. See "SECURITY FOR THE SERIES 2003A BONDS" and "BONDOWNERS' RISKS."

The Agency deposits all Tax Revenues that it receives during any Bond Year in the Special Fund, from which debt service on the Bonds and the Parity Debt, including the Series 2003A Bonds, is paid. See "SECURITY FOR THE SERIES 2003A BONDS – Special Fund."

A portion of the proceeds of the Series 2003A Bonds will be used to refund all of the Outstanding Agency's Central City Project 1993 Tax Allocation Bonds (the "Series 1993 Bonds"), \$7,240,000 principal amount of which are outstanding. See "THE SERIES 2003A BONDS – Plan of Refunding."

Any future decrease in the assessed valuation in the Project Area, the applicable tax rates or general decline in the economic stability of the area will reduce the Tax Revenues allocated to the Agency from the Project Area, and correspondingly would have an adverse impact on the amount of Tax Revenues available to pay debt service on the Series 2003A Bonds. See "BONDOWNERS' RISKS."

Future increases in the assessed valuation in the Project Area would increase the tax increment generated in the Project Area, and could cause the Agency to reach a cumulative tax increment limit imposed by the Redevelopment Plan before the final maturity of the Series 2003A Bonds (see "TAX ALLOCATION FINANCING — Plan Limitations"). The Indenture requires the Agency to redeem, prepay, or defease (to the extent permitted by the Indenture) portions of the Bonds if the amount of cumulative tax increment rises above certain thresholds set forth in the Indenture. See "BONDOWNERS' RISKS" and "APPENDIX C — SUMMARY OF INDENTURE — Other Covenants of the Agency – Annual Accounting of Gross Tax Increment."

Bond Insurance for the Series 2003A Bonds

Payment of principal of and interest on the Series 2003A Bonds when due will be insured by a financial guaranty insurance policy (the "Insurance Policy") to be issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the issuance of the Series 2003A Bonds. See "BOND INSURANCE FOR THE SERIES 2003A BONDS" and "APPENDIX G — SPECIMEN INSURANCE POLICY."

Professionals Involved in the Offering

Kelling, Northcross & Nobriga, Oakland, California, is the financial advisor with respect to the Series 2003A Bonds. All proceedings in connection with the execution and delivery of the Series 2003A Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the Agency. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as counsel to the Underwriter. Rosenow Spevacek Group, Inc. is acting as Fiscal Consultant to the Agency. Grant Thornton LLP is acting as Verification Agent. Kelling, Northcross & Nobriga, Orrick, Herrington & Sutcliffe LLP, and the Trustee will receive compensation from the Agency upon the sale and delivery of the Series 2003A Bonds.

Offering and Delivery

The Bonds are offered when, as and if executed and delivered, and accepted by the Underwriter, subject to approval by Bond Counsel. It is anticipated that the Series 2003A Bonds will be available for delivery in New York, New York on or about December 18, 2003.

Additional Information

This Official Statement contains brief descriptions of the Series 2003A Bonds, the security for the Series 2003A Bonds, the Indenture, the Agency, the Project Area and certain other information relevant to the issuance of the Series 2003A Bonds. All references herein to the Indenture are qualified in their entirety by reference to the definitive form thereof and all references to the Series 2003A Bonds are further qualified by references to the information with respect thereto contained in the Indenture. The Agency's audited financial statements for the Fiscal Year ended June 30, 2002 are included in APPENDIX A. The Report of Rosenow, Spevacek Group Inc, the Fiscal Consultant, regarding the Tax Revenues is included in APPENDIX B. A summary of the Indenture is included in APPENDIX C. Selected information regarding the City of Santa Barbara is included in APPENDIX D. The proposed form of legal opinion for the Series 2003A Bonds is set forth in APPENDIX E. The proposed form of Continuing Disclosure Certificate is included in APPENDIX F. A specimen of the Insurance Policy is included in APPENDIX G. Certain information relating to DTC and the book-entry only system is included in APPENDIX H. All capitalized terms used herein and not normally capitalized have the meanings assigned to them in the Indenture, unless otherwise stated in this Official Statement. The information set forth herein and in the Appendices hereto has been furnished by the Agency and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. A copy of the Indenture is available upon request of the Agency. The Agency's address and telephone number for such purpose is 735 Anacapa Street, P.O. Box 1990, Santa Barbara, California, 93102-1990, Robert Peirson, Fiscal Director, or 805-564-5335.

CONTINUING DISCLOSURE

The Agency has covenanted for the benefit of the holders and beneficial owners of the Series 2003A Bonds to provide certain financial information and operating data relating to the Agency by no later than 8 months and one day following the end of the Agency's Fiscal Year (which Fiscal Year currently ends June 30 and therefore by March 1 (the "Annual Report Date")) (the "Series 2003A Bonds—Annual Report"), commencing with the report for the 2002-3 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Series 2003A Bonds—Annual Report will be filed by the Dissemination Agent and/or the Trustee on behalf of the Agency with each Nationally Recognized Municipal Securities Information Repository and State Repository, if any. The notices of material events will be filed by the Dissemination Agent and/or the Trustee on behalf of the Agency with each Nationally Recognized Municipal Securities Information Repository, the Municipal Securities

Rulemaking Board and State Repository, if any. The specific nature of the information to be contained in the Series 2003A Bonds— Annual Report or the notices of material events is described below under the caption “APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5).

The Agency has never failed to comply in all material respects with any previous undertakings with regard to Securities Exchange Commission Rule 15c2-12(b)(5) to provide annual reports or notices of material events.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2003A Bonds are anticipated to be applied as follows:

SOURCES:	
Series 2003A Bonds	\$34,810,000.00
Original Issue Premium	\$1,133,830.25
Transfer from Reserve Account ⁽¹⁾	\$1,461,929.35
TOTAL SOURCES:	\$37,405,759.60
 USES:	
Deposit to Escrow Fund for Series 1993 Bonds ⁽²⁾	\$7,545,341.22
Deposit to Project Account ⁽³⁾	\$28,919,130.64
Underwriter's Discount	\$211,318.62
Costs of Issuance ⁽⁴⁾	\$729,969.12
TOTAL USES:	\$37,405,759.60

⁽¹⁾ Represents a transfer from the Reserve Account in amount equal to that portion of the Reserve Requirement attributable to the Series 1993 Bonds.

⁽²⁾ Sets forth a portion of the proceeds of the Series 2003A Bonds that will be used to refund all of the Outstanding Series 1993 Bonds. See “THE SERIES 2003A BONDS — Plan of Refunding.”

⁽³⁾ See “THE PROJECT — Development Projects” for information about the projects to be financed with proceeds of the Series 2003A Bonds deposited into the Project Account.

⁽⁴⁾ Includes the premiums for the Insurance Policy and the Reserve Surety Bond, and the fees and expenses of the fiscal consultant, Bond Counsel and Disclosure Counsel, the applicable Trustee (including counsel fees), the rating agencies, the financial advisor, and the costs of printing.

THE SERIES 2003A BONDS

Description of the Series 2003A Bonds

The Series 2003A Bonds will be issued in the aggregate principal amount of \$34,810,000. The Series 2003A Bonds will be dated the date of delivery, and will bear interest at the rates per annum and will mature, subject to the redemption provisions described herein, on the dates and in the principal amounts, all as set forth on the inside cover hereof. The Series 2003A Bonds will be issued and delivered in fully registered form without coupons, in the denomination of \$5,000 each or any integral multiple thereof.

Interest on the Series 2003A Bonds will be payable semiannually on March 1 and September 1 of each year, commencing March 1, 2004 (each, an “Interest Payment Date”). Interest with respect to the Series 2003A Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless such date is after a Record Date and on or before the succeeding Interest Payment Date, in which case interest with respect thereto will be payable from such Interest Payment Date, or unless such date is on or before February 15, 2004, in which case interest with respect thereto will be payable from their dated date.

Principal of and premium, if any, on the Series 2003A Bonds will be payable by check denominated in lawful money of the United States of America upon surrender thereof for cancellation at the principal office of the

Trustee in Los Angeles. Interest on the Series 2003A Bonds will be paid by check mailed by first class mail on such Interest Payment Date to the person(s) whose names appear on the bond registration books of the Trustee as the registered owners of such bonds at the close of business on the 15th day of the month (whether or not a business day) preceding each such Interest Payment Date at such persons' addresses as they appear on such registration books; provided, however, that upon the written request of an owner of not less than \$1,000,000 aggregate principal amount of Series 2003A Bonds received by the Trustee not less than three business days prior to said 15th day of the month, interest will be paid by wire transfer to an account within the United States specified by such owner. As long as the Series 2003A Bonds are registered in book-entry only form, principal and interest will be payable solely to Cede & Co., as nominee of DTC, as the sole registered Owner of the Series 2003A Bonds.

Optional Redemption

The Series 2003A Bonds maturing on or after March 1, 2015 shall be subject to optional redemption, from any source of available funds, in whole or in part in denominations of \$5,000 or any integral multiple of \$5,000 among maturities as directed in a Written Request of the Agency, on any date on or after March 1, 2014, at a redemption price equal to the par amount thereof, without premium, plus accrued interest thereon to the date of redemption.

Selection of Series 2003A Bonds

For purpose of selecting Series 2003A Bonds for redemption, Series 2003A Bonds shall be deemed to be composed of \$5,000 portions, and any such portions may be separately redeemed.

Notice of Redemption

The Trustee on behalf and at the expense of the Agency, shall send notice by first class mail, postage prepaid, of any redemption to: (1) the respective Owners of any Series 2003A Bonds designated for redemption, at least 30 but not more than 60 days prior to the redemption date, at their respective addresses appearing on the Registration Books, and (2) the Securities Depositories and to the Information Services, at least 30 but not more than 60 days prior to the redemption date; provided, however, that such mailing shall not be a condition precedent to such redemption and neither failure to mail or to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Series 2003A Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the serial numbers and the maturity or maturities (in the event of redemption of less than all of the Series 2003A Bonds of such maturity or maturities) of the Series 2003A Bonds to be redeemed, and shall require that such Series 2003A Bonds be then surrendered at the trust office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Series 2003A Bonds will not accrue from and after the redemption date.

Plan of Refunding

\$7,545,341.22 of the proceeds of the Series 2003A Bonds will be deposited in an escrow fund (the "Escrow Fund") established under an Escrow Agreement between the Agency and the Trustee. The moneys so deposited will be used to purchase certain securities, the interest and principal of which will be sufficient to pay the interest and principal of the outstanding Series 1993 Bonds that mature on March 1, 2004, and to redeem on March 1, 2004 the outstanding Series 1993 Bonds that do not mature on March 1, 2004 at a redemption price of 101.5%.

Debt Service Requirements

The principal and interest requirements for the Series 1995 Senior Bonds, the Series 2001 Bonds, the Series 2003A Bonds, and the 1995 Subordinate Bonds are as follows:

Table 1

ANNUAL DEBT SERVICE REQUIREMENTS

Fiscal Year	Series 1995 Senior Bonds	Series 2001 Bonds	Series 2003A Bonds	Total Parity Debt Service ⁽¹⁾	1995 Subordinate Bonds	Total Debt Service ⁽¹⁾
2003-04	\$3,168,788	\$1,764,854	\$2,351,963	\$7,285,605	\$772,700	\$8,058,305
2004-05	2,389,800	1,764,854	3,359,830	7,514,484	720,500	8,234,984
2005-06	2,369,100	1,764,854	3,378,130	7,512,084	719,200	8,231,284
2006-07	2,353,000	1,764,854	3,395,230	7,513,084	720,800	8,233,884
2007-08	3,460,900	1,764,854	2,286,130	7,511,884	—	7,511,884
2008-09	—	4,549,854	2,966,230	7,516,084	—	7,516,084
2009-10	—	4,544,973	2,970,430	7,515,403	—	7,515,403
2010-11	—	4,545,554	2,967,830	7,513,384	—	7,513,384
2011-12	—	4,546,185	2,969,080	7,515,265	—	7,515,265
2012-13	—	4,551,165	2,961,455	7,512,620	—	7,512,620
2013-14	—	4,553,565	2,959,455	7,513,020	—	7,513,020
2014-15	—	4,550,785	2,962,205	7,512,990	—	7,512,990
2015-16	—	4,557,290	2,954,205	7,511,495	—	7,511,495
2016-17	—	4,556,810	2,955,405	7,512,215	—	7,512,215
2017-18	—	4,558,750	2,956,905	7,515,655	—	7,515,655
2018-19	—	4,557,000	2,956,905	7,513,905	—	7,513,905
TOTAL	\$13,741,588	\$58,896,199	\$47,351,388	\$119,989,175	\$2,933,200	\$122,922,375

(1) Amount listed for Fiscal Year 2003-04 does not include debt service paid in respect of the Series 1993 Bonds on September 1, 2003 in an amount equal to \$226,511, which when included would increase the Total Parity Debt Service for Fiscal Year 2003-04 to \$7,512,116.

SECURITY FOR THE SERIES 2003A BONDS

General

The Redevelopment Law provides security for the financing of redevelopment projects through 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. Taxes collected upon any increase in taxable valuation over the base roll are allocated to a redevelopment agency and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes and only receive tax revenues from the allocation of taxes under the redevelopment plan.

Allocation of Taxes

As provided in the redevelopment plan for the Project Area (the "Redevelopment Plan"), and pursuant to Article 6 of Chapter 6 of the Redevelopment Law (commencing with section 33670 of the California Health and Safety Code) and Section 16 of Article XVI of the Constitution of the State, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State and any city, county, city and county, district or other public corporation (herein collectively referred to as "Taxing Agencies") for Fiscal Years beginning after the January 1 subsequent to the effective date of the ordinance adopting the Redevelopment Plan for the Project Area, or any amendments with respect to such, are divided as follows:

1. To Taxing Agencies: That portion of the taxes that would be produced by the rate upon which the tax is levied each year by or for each of said Taxing Agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the ordinance approving the redevelopment plan, shall be allocated to, and when collected shall be paid into the funds of the respective Taxing Agencies as taxes by or for said Taxing Agencies on all other property are paid; and

2. To the Agency: Except for taxes which are attributable to a tax rate levied by a Taxing Agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the Taxing Agency on or after January 1, 1989, which shall be allocated to and when collected shall be paid to the respective Taxing Agency, that portion of said levied taxes each year in excess of such amount shall be allocated to, and when collected, shall be paid to the Agency to pay principal of and interest on loans, moneys advanced to, or indebtedness (whether funded, refunded, assumed or otherwise) incurred by the Agency to finance or refinance, in whole or in part, the Project.

Tax Revenues

The Series 2003A Bonds are special obligations of the Agency and, together with the other Bonds and all other Parity Debt, are equally and ratably secured by Tax Revenues received by the Agency in an amount equal to annual debt service.

"Tax Revenues" means (1) all taxes pledged and annually allocated within the Plan Limit, 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 Redevelopment 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, (2) 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 (but excluding any subvention paid to the Agency pursuant to section 16110 *et seq.* of the California Government Code), and (3) that portion of such taxes otherwise required by section 33334.3 of the Redevelopment Law to be deposited in the Low and Moderate Income Housing Fund, but only to the extent necessary to repay that portion allocable to any Parity Debt (including applicable reserves and financing costs) issued to finance amounts to be deposited in the Low and Moderate Income Housing Fund for use pursuant to section 33334.2 of the Redevelopment Law to increase or improve the supply of low and moderate income housing within or of benefit to the Project Area. "Tax Revenues" excludes all other amounts of such taxes (if any) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to section 33334.2 of the Redevelopment Law for increasing and improving the supply of low and moderate income housing.

The Tax Revenues will be deposited in the Special Fund held by the Agency under the Indenture. Tax Revenues in the Special Fund, arising as above, are pledged to the payment of the Bonds so long as any such Bonds remain outstanding. See "—Special Fund" below. The Agency may exercise its option each year to use surplus amounts of such Tax Revenues for any lawful purpose, including the payment of any subordinate debt service, after the debt service requirements of the Bonds and any other Parity Debt have been satisfied, the reserve accounts with respect thereto have been replenished, and the other conditions set forth in the Indenture have been met.

The Agency has no power to levy and collect taxes and any legislative property tax limitation, legislative measure, voter initiative or provision of additional sources of income to taxing agencies having the effect of reducing the property tax rate must necessarily reduce the amount of Tax Revenues that would otherwise be

available to pay the principal of, redemption price, if any, and interest on the Bonds. Likewise, the reduction of assessed valuations of taxable property in the Project Area, any reduction in tax rates and broadened property tax exemptions will have a similar effect. See "BONDOWNERS' RISKS" and "TAX ALLOCATION FINANCING."

The Series 2003A Bonds are special obligations of the Agency and as such are not a debt of the City, the State, or any of its political subdivisions. None of the City, the State, or any of their respective political subdivisions are liable for the payment of the Series 2003A Bonds. The Series 2003A Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. Neither the members of the Agency nor any persons executing the Series 2003A Bonds are liable personally on the Series 2003A Bonds by reason of their issuance.

Special Fund

Under the Indenture, there is established the "Special Fund," which is held by the Agency. The Agency 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 Redemption Account and the Reserve Account in such Bond Year pursuant to the Indenture and for deposit in such Bond Year in the funds and accounts established with respect to Parity Debt, as provided in 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 pursuant to the immediately preceding paragraph will be released from the pledge and lien hereunder for the security of the Bonds and may be applied by the Agency for any lawful purposes of the Agency, including but not limited to the payment of Subordinate Debt (including the payment of debt service on the 1995 Subordinate Bonds), or the payment of any amounts due and owing to the United States of America pursuant to the provisions of the Indenture relating to the Rebate Fund. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable hereunder and under any Supplemental Indentures, the Agency will not have any beneficial right or interest in the moneys on deposit in the Special Fund, except as may be provided in this Indenture and in any Supplemental Indenture.

Issuance of Parity Debt

The Indenture allows for the issuance of Parity Debt payable from the Tax Revenues and secured by a lien and charge upon the Tax Revenues equal to the lien and charge securing the Outstanding Parity Bonds, but only subject to the requirements of the Indenture which include but are not limited to:

(1) The Agency is in compliance with all covenants set forth in the Indenture and all Supplemental Indentures to the Indenture (including the First Supplement, the Second Supplement, the Third Supplement, and the Fourth Supplement).

(2) The Tax Revenues estimated to be received for the then current Fiscal Year based on the most recent assessed valuation of property in the Project Area as certified by an appropriate official of the County are at least equal to 125% of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding immediately following the issuance of such Parity Debt. In addition, the Tax Revenues estimated to be received for the then current Fiscal Year based on the most recent assessed valuation of property in the Project Area certified by an appropriate official of the County are at least equal to 110% of Maximum Annual Debt Service on all Bonds and Parity Debt and on all Subordinate Debt which will be outstanding immediately following the issuance of such Parity Debt. In the event such Parity Debt is to be issued solely for the purpose of refunding and retiring any outstanding Bonds or Parity Debt or any outstanding Subordinate Debt, interest and principal payments on the outstanding Bonds, Parity Debt or Subordinate Debt to be so refunded and retired from the proceeds of such Parity Debt being issued will be excluded from the foregoing computations of Maximum Annual Debt Service. Nothing contained in the Indenture limits the issuance of any tax allocation bonds of the Agency payable from Tax Revenues and secured by a lien and charge on Tax Revenues if, after the issuance and delivery of such tax allocation bonds,

none of the Bonds, Parity Debt or Subordinate Debt theretofore issued under the Indenture or under the Subordinate Indenture will be outstanding. See "APPENDIX C — SUMMARY OF INDENTURE."

(3) The Supplemental Indenture providing for the issuance of such Parity Debt provides that interest thereon shall be payable on March 1 and September 1, and principal thereof shall be payable on March 1 in any year in which principal is payable.

(4) The Supplemental Indenture providing for the issuance of such Parity Debt may provide for the establishment of separate funds and accounts.

(5) The aggregate amount of the principal of and interest on all outstanding Bonds and Parity Debt coming due and payable following the issuance of such Parity Debt does not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Parity Debt.

(6) The Agency delivers to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt described in subparagraphs (1), (2), (3), (4), and (5) of this paragraph have been satisfied.

Solely for purposes of subparagraph (2) above, "Tax Revenues" will be reduced by the following amounts:

(a) the amount of subventions paid by the State or any other amount appropriated by the State for the Agency;

(b) unless the Teeter Plan, or other plan by which the County remits 100% of the Tax Revenues regardless of delinquencies, is currently in effect and the County has made no announcement that such plan will be discontinued, the amount derived by applying the average percentage by which the actual tax collections in the Project Area are less than the amount of the secured tax levy in the Project Area for the immediately preceding five fiscal years;

(c) the amount by which Tax Revenues would decrease if all pending assessment appeals by the top 20 taxpayers within the Project Area were to be determined in favor of such property owners in the full amount requested in such appeals, based on the most recent information available from the Office of the County Assessor; and

(d) the amount of Tax Revenues raised from tax rates levied in excess of 1.00%.

Reserve Account

The Bonds are additionally secured by the Reserve Account established pursuant to the Indenture, and maintained in an amount equal to the least of: (1) 10% of the proceeds (within the meaning of Section 148 of the Code) of that portion of each Series of Bonds Outstanding with respect to which Annual Debt Service is calculated and; (2) Maximum Annual Debt Service on all outstanding Bonds. Upon issuance of the Series 2003A Bonds, the Reserve Account Requirement will equal \$7,516,084. As of November 19, 2003, \$6,422,965 was on deposit in the Reserve Account, \$4,071,739 of which is in the form of cash and \$2,371,226 of which is in the form of principal amount available under Reserve Account Credit Instruments (as defined below). All money in the Reserve Account shall be used by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account and the Sinking Account, in such order, in the event of any deficiency at any time in any of such accounts, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on Parity Bonds in the event that no Tax Revenues are lawfully available therefor, or for payment to the Agency upon the retirement of all outstanding Parity Bonds. The Agency reserves the right to substitute one or more letters of credit, surety bonds, bond insurance policies or other form of guarantee from a financial institution (the long-term unsecured obligations of which are then assigned a rating in one of the two highest rating categories by Moody's Investors Service or Standard & Poor's Ratings Services) ("Reserve Account Credit Instruments") in lieu of or in substitution for all or any portion of the moneys then required to be on deposit in the Reserve Account. Any such letter of credit, surety

bond, bond insurance policy or other form of guarantee must provide that the Trustee is entitled to draw amounts thereunder when required for the purposes of making the transfers from the Reserve Account to the Interest Account, the Principal Account and the Sinking Account in the event of a deficiency in any such account.

Reserve Surety Bond

Application has been made to the Insurer for the issuance of a surety bond (the "Reserve Surety Bond") for the purpose of funding a portion of the Reserve Account (see the "Reserve Account" above). The Series 2003A Bonds will only be delivered upon the issuance of the Reserve Surety Bond. The premium on the Reserve Surety Bond is to be fully paid at or before the issuance and delivery of the Series 2003A Bonds. The Reserve Surety Bond provides that upon the later of (1) one day after receipt by the Insurer of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Series 2003A Bonds when due has not been made or (2) the interest payment date specified in the Demand for Payment submitted to the Insurer, the Insurer will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Series 2003A Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Reserve Surety Bond.

Pursuant to the terms of the Reserve Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by the Insurer under the terms of the Reserve Surety Bond and the Agency is required to reimburse the Insurer for any draws under the Reserve Surety Bond with interest at a market rate. Upon such reimbursement, the Reserve Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Agency is subordinate to the Agency's obligations with respect to the Series 2003A Bonds.

In the event the amount on deposit, or credited to the Reserve Account, exceeds the amount of the Reserve Surety Bond, any draw on the Reserve Surety Bond shall be made only after all the funds in the Reserve Fund Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Reserve Surety Bond, includes amounts available under a letter of credit, insurance policy, Reserve Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Surety Bond and the Additional Funding Instrument shall be made on a *pro rata* basis to fund the insufficiency. The Indenture provides that the Reserve Account will be replenished in the following priority: (1) principal and interest on the Reserve Surety Bond and on the Additional Funding Instrument will be paid from first available Tax Revenues on a *pro rata* basis; (2) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Reserve Surety Bond and the Additional Funding Instrument shall be deposited from next available Tax Revenues.

The Reserve Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

In the event that the Insurer were to become insolvent, any claims arising under the Reserve Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

BOND INSURANCE FOR THE SERIES 2003A BONDS

Bond Insurance Policy

Ambac Assurance Corporation (the "Insurer") has made a commitment to issue a financial guaranty insurance policy (the "Insurance Policy") relating to the Series 2003A Bonds effective as of the date of issuance of the Series 2003A Bonds, a specimen of which is attached to this Official Statement as APPENDIX G. Under the terms of the Insurance Policy, the Insurer will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2003A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Insurance Policy). The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the

date on which the Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2003A Bonds and, once issued, cannot be canceled by the Insurer.

The Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2003A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2003A Bonds, the Insurer will remain obligated to pay principal of and interest on outstanding Series 2003A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2003A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on Series 2003A Bonds which have become Due for Payment and which are made to an Owner by or on behalf of the Agency have been deemed a preferential transfer and theretofore recovered from their registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; or
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee.

If it becomes necessary to call upon the Insurance Policy, payment of principal requires surrender of Series 2003A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2003A Bonds to be registered in the name of the Insurer to the extent of the payment under the Insurance Policy. Payment of interest pursuant to the Insurance Policy requires proof of an Owner entitlement to interest payments and an appropriate assignment of an Owner's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Series 2003A Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2003A Bond and will be fully subrogated to the surrendering Owner's rights to payment.

In the event that the Insurer were to become insolvent, any claims arising under the Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

The Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,993,000,000 (unaudited) and statutory capital of \$4,195,000,000 (unaudited) as of September 30, 2003. Statutory capital consists of the Insurer policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation

and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contain in the Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Agency of the Series 2003A Bonds.

The Insurer makes no representation regarding the Series 2003A Bonds or the advisability of investing in the Series 2003A Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Insurer and presented under the heading "BOND INSURANCE FOR THE SERIES 2003A BONDS."

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov/> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of the Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Insurer. The address of the Insurer's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 688-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference into this Official Statement:

1. The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
3. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
4. The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003.
7. The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
8. The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
9. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
10. The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;
11. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;

12. The Company's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003;
13. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003; and
14. The Company's Annual Report Amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2002 and filed on November 19, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

BONDOWNERS' RISKS

Prospective investors should particularly consider the risks that are described below in this section. However, prospective investors are advised to read the entire Official Statement, including the sections herein entitled "TAX ALLOCATION FINANCING" AND "FINANCIAL INFORMATION REGARDING TAX REVENUES."

Estimated Tax Revenues

To estimate the total Tax Revenues available to pay debt service on the Series 2003A Bonds, the Agency has assumed that future assessed valuation in the Project Area will increase 2% annually and future tax rates will remain at the level described in "FINANCIAL INFORMATION REGARDING TAX REVENUES — Projected Tax Revenues." The Agency has also assumed that the County will continue to pay the Agency 100% of its tax increment revenues pursuant to the Teeter Plan and the County's policy. See "TAX ALLOCATION FINANCING — Teeter Plan and County Policy." The Agency believes these assumptions to be reasonable, but the Agency cannot assure prospective investors that these assumptions will be realized. To the extent that the assessed valuation in the Project Area or the tax rates are less than that assumed herein, or the County discontinues the Teeter Plan or the policy, the total Tax Revenues available to pay debt service on the Series 2003A Bonds may be less than those projected and such reduced Tax Revenues may be insufficient to provide for the payment of principal of, redemption price, if any, and interest on the Series 2003A Bonds. See "FINANCIAL INFORMATION REGARDING TAX REVENUES — Tax Rates" and "— Projected Tax Revenues."

Reduction in Assessed Value

Tax Revenues allocated to the Agency, which constitute the primary security for the Series 2003A Bonds, are determined by the incremental increase in the assessed value of taxable property in the Project Area, the current rate or rates at which property in the Project Area is taxed, and the percentage of taxes collected in the Project Area. Several events which are beyond the control of the Agency could reduce available Tax Revenues. A reduction of taxable values of property in the Project Area or a reduction of the rate of increase in taxable values of property in the Project Area caused by economic or other factors beyond the Agency's control (such as a delay, reduction or termination of proposed development requested for in the Project Area, successful appeals by property owners for a reduction in a property's assessed value, a reduction of the general inflationary rate, a reduction in transfers of property, construction activity or other events that permit reassessment of property at higher values, or the destruction of property caused by natural or other disasters, such as earthquakes) could reduce the Tax Revenues that secure the Series 2003A Bonds. Such a reduction in Tax Revenues and Surplus Tax Revenues could have an adverse impact on the Agency's ability to make timely payment of principal and interest on the Series 2003A Bonds. This risk increases in proportion to the percent of total assessed value attributable to any single assessee in the Project Area. See "FINANCIAL INFORMATION REGARDING TAX REVENUES — Top Taxpayers" for a description of the major property taxpayers within the Project Area.

Property tax delinquency rates for the Project Area are not currently a factor in determining Tax Revenues to be received by the Agency because of the Teeter Plan (as defined below) and the County's policy which provide the Agency with 100% of tax increment revenues, regardless of the collection rate within the Project Area.

However, the County may discontinue the Teeter Plan or the policy at any time and there is no assurance that the Agency will continue to be credited with 100% of its annual apportionment of tax increment. See "TAX ALLOCATION FINANCING — Teeter Plan and County Policy."

Limit on Cumulative Tax Increment

Future increases in the assessed valuation in the Project Area would increase the tax increment generated in the Project Area, and could cause the Agency to reach a cumulative tax increment limit imposed by the Redevelopment Plan before the final maturity of the Series 2003A Bonds (see "TAX ALLOCATION FINANCING — Plan Limitations"). The Indenture requires the Agency to redeem, prepay or defease (to the extent permitted by the Indenture) portions of the Bonds if the amount of cumulative tax increment rises above certain thresholds set forth in the Indenture. See Appendix C — "SUMMARY OF INDENTURE — Other Comments of the Agency — Annual Accounting of Gross Tax Increment."

Appeals of Assessed Values

Pursuant to California law, a property owner may apply for a reduction of the property tax assessment for that owner's property. In the County, a property owner desiring to reduce the assessed value of such owner's property in any one year must submit an application to the County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of each application by the staff of the County Assessor's Office, the staff makes a recommendation to the Appeals Board on each application which has not been rejected for incompleteness or untimeliness or withdrawn. The Appeals Board holds a hearing and either reduces the assessment or confirms the assessment. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as "ongoing hardship"), the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. Appeals for reduction in the "base year" value of an assessment, which generally must be made within three years of the date of change in ownership or completion of new construction that determined the base year, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. Moreover, in the case of any reduction in any one year of assessed value granted for "ongoing hardship" in the then current year, and also in any cases involving stipulated appeals for prior years relating to base year and personal property assessments, the Agency's tax increment attributable to such properties will be reduced in the then-current year. In practice, such a reduced assessment may remain in effect beyond the year in which it is granted. See "FINANCIAL INFORMATION REGARDING TAX REVENUES" and "APPENDIX B — FISCAL CONSULTANT'S REPORT."

Reduction in Inflationary Rate

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value basis of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, but that adjustment may not exceed a two percent increase for any year. Further, the full cash value basis of real property may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. The California State Department of Finance has indicated that such inflationary factor has been two percent for Fiscal Year 2002/03. For Fiscal Year 1999-00, the inflationary factor was 1.853%. The Agency has projected Tax Revenues to be received by it based, among other things, upon two percent inflationary increases. Should the assessed valuation of taxable property in the Project Area not increase at the projected annual rate of two percent, the Agency's receipt of future Tax Revenues may be adversely affected. See "TAX ALLOCATION FINANCING — Property Tax Rate and Appropriation Limitations" herein.

On December 27, 2001, the Orange County Superior Court held in the case of *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, that where a home's market value did not increase for two years, the Orange County assessor violated the provision of Article XIII A limiting the annual inflation

adjustment to two percent when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by approximately four percent in a single year, following a year in which the assessed value had declined. The assessors in most California counties, including the County of Santa Barbara, have used and currently use a similar methodology in raising the taxable values of property beyond two percent in a single year. The State Board of Equalization has approved this methodology for increasing assessed values in similar circumstances. On December 12, 2002, the Court certified the case for class action status, with the class being all similarly affected owners of real property in Orange County. On April 18, 2003, the superior court entered a final judgment against the County of Orange. On June 12, 2003, the County of Orange, the County Assessor and the County Tax Collector filed a notice of appeal. The Court of Appeal has scheduled a hearing on the case on December 16, 2003. Similar cases have been brought in other counties, such as Los Angeles County and San Diego County. In the Los Angeles County and San Diego County cases, the courts affirmed the recapture method currently employed in those counties. The Agency is unable to predict the final outcome of the appeal in the Orange County action or in similar litigation currently pending in other counties. However, if the superior court's reasoning in the Orange County action is applied generally, the loss of tax revenue to communities and redevelopment agencies, including the Agency, could be significant. While the Agency cannot predict the effect, if any, that the outcome of such litigation would have on tax increment revenues to be received by the Agency, the effect could be adverse.

The Agency cannot predict whether there will be any future challenges to California's present system of property tax assessment and cannot evaluate the ultimate effect on the Agency's receipt of tax increment revenues should a future decision hold unconstitutional the method of assessing property.

State Budget Deficit and Its Impact on Tax Revenues

In connection with its approval of a budget for the 1993/94 Fiscal Year, the State Legislature enacted Senate Bill 1135 which, among other things, reallocated approximately \$65 million from redevelopment agencies to school districts by shifting approximately 5.675% of each agency's tax increment, net of amounts due to other taxing agencies, to school districts for Fiscal Years 1993/94 and 1994/95. The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment areas on a collective basis, and was not allocated separately to individual project areas.

In connection with its approval of a budget for the 2002/03 Fiscal Year, the State Legislature enacted Assembly Bill 1768, effective September 30, 2002, which reallocated \$75 million from redevelopment agencies to school districts during the 2002/03 Fiscal Year. Each agency's proportionate share of such amount was required to be transferred to the county auditor for deposit in the Educational Revenue Augmentation Fund prior to May 10, 2003. The Agency's share of this reallocation was approximately \$424,978. The Agency transferred such amount as required by Assembly Bill 1768.

On July 29, 2003, in connection with its approval of a budget for the 2003/04 Fiscal Year, the State Assembly adopted SB 1045, which would reallocate \$135 million from redevelopment agencies to school districts during the 2003/04 Fiscal Year. On August 3, 2003 the Governor signed the budget bill for Fiscal Year 2003/04. On August 19, 2003, the State Senate voted to concur with the Assembly on SB 1045, and the governor signed the bill on September 1, 2003. The Agency estimates its share of the \$135 million shift will be approximately \$704,104, which it expects to pay from the Agency's general fund.

The budget bills do not resolve the State's budget deficit. It is therefore anticipated that there may be additional future legislation which addresses this situation. The Agency cannot predict what measures may be proposed or implemented for the current fiscal year or in the future. Given the magnitude of the State's budgetary deficit, it is possible that future legislation will further reduce or require a further shift of incremental tax revenues. In addition, on October 7, 2003 Governor Gray Davis was recalled as the Governor of the State, and Governor-elect Arnold Schwarzenegger was elected to replace Governor Davis. This political change casts considerable uncertainty on how the State's budgetary deficit will be resolved. Therefore, the Agency cannot predict the impact that this political change will have on current or future redevelopment funding issues.

Limited Obligation

The Series 2003A Bonds are a limited obligation of the Agency and, as and to the extent set forth in the Indenture, are payable solely from and secured by a first lien and pledge of the Tax Revenues and certain other moneys held by the Trustee, but on parity with certain other Parity Debt previously issued by the Agency. The full faith and credit of the Agency is not pledged for the payment of the principal of or interest on the Series 2003A Bonds. The Series 2003A Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Agency, or any of its income or receipts, except the Tax Revenues and certain other moneys held by the Trustee.

Certain Bankruptcy Risks

Each of the following limits the enforceability of the rights and remedies of the owners of the Series 2003A Bonds and the obligations of the Agency:

- (1) the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect;
- (2) equitable principles which may limit the specific enforcement under state law of certain remedies;
- (3) the exercise by the United States of America of the powers delegated to it by the federal Constitution; and
- (4) the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the Series 2003A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Secondary Market

The Agency cannot guarantee any prospective investor that a secondary market for the Series 2003A Bonds will exist or develop, or, if a secondary market exists, that such Series 2003A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then-prevailing circumstances. Such prices could be substantially lower than the original purchase price.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest on the Series 2003A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date such Series 2003A Bonds were issued as a result of future acts or omissions of the Agency in violation of its covenants contained in the Indenture. Should such an event of taxability occur, the Series 2003A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity.

Concentration of Land Ownership

For Fiscal Year 2003-04, the secured assessed value of the largest ten taxpayers represents approximately 25% of the total assessed secured property value and approximately 23% of the total incremental value within the Project Area. The inability or unwillingness of such taxpayers to pay property taxes on its property in the Project might have an adverse effect on the Agency's ability to repay the Series 2003A Bonds. See "FINANCIAL INFORMATION REGARDING TAX REVENUES — Top Taxpayers" herein.

Levy and Collections

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 securing the Series 2003A Bonds.

Change in Redevelopment Law

There can be no assurance that the California electorate will not at some future time adopt initiatives or that the State Legislature will not enact legislation that will amend the Redevelopment Law or other laws of the Constitution resulting in a reduction of Tax Revenues securing the Series 2003A Bonds. See "TAX ALLOCATION FINANCING" herein.

Seismic Factors

The City like most regions in the State of California is subject to unpredictable seismic activity. Several known faults lie near the Project Area, including the Mesa Fault and the Mission Ridge Fault. In addition, there are likely to be one or more unmapped faults offshore of the Project Area. 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 an earthquake. A portion of the Project Area contains soil and groundwater conditions that make it susceptible to high or possible risk of liquefaction during a major earthquake. Severe seismic activity or flooding in the Project Area could substantially damage property located in the Project Area, and could lead to successful appeals for reduction of assessed values of such property. Such a reduction could result in a decrease in Tax Revenue collected by the Agency, thereby reducing the Tax Revenues that secure the Series 2003A Bonds.

In 1988, the City, pursuant to a state statutory mandate, identified those commercial buildings within the Project Area that were "Potentially Hazardous Buildings" as a result of having been constructed prior to City's adoption of the 1946 Edition of the Uniform Building Code and as a result of having utilized a construction method involving unreinforced masonry bearing walls. In 1989, the City adopted an ordinance codified as Santa Barbara Municipal Code Chapter 22.18 (the "Seismic Safety Ordinance") which mandated that all such City identified Potentially Hazardous Buildings be seismically retrofitted in accordance with current construction and safety codes by the year 1996. In the year 1999, the City, having had to undertake and complete a few enforcement actions to obtain full compliance with the mandate, established that all Potentially Hazardous Buildings identified in 1988 and located within the Project Area had appropriately completed the required seismic retrofitting.

Flood Risk

A portion of the Project area lies within special flood hazard areas subject to inundation by a 100-year flood, and subject to flood depths of one to three feet. The balance of the Project Area lies within the 500-year flood plain or areas of the 100-year flood plain subject to floods of less than one foot. During the past ten years, a portion of the Project Area experienced flooding. Severe flooding in the Project Area could result in substantial damage to property located in the Project Area, and could lead to successful appeals for reduction of assessed values of such property. Such a reduction could result in a decrease in Tax Revenue collected by the Agency, thereby reducing the Tax Revenues that secure the Series 2003A Bonds.

Hazardous Substances

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

condition. If this were to occur, the affected property owner may successfully appeal the assessed value of the affected property, thereby reducing the Tax Revenues.

TAX ALLOCATION FINANCING

Introduction

The Law and the California Constitution provide a method for financing and refinancing redevelopment projects based upon an allocation of taxes collected within a project area. First, the assessed valuation of the taxable property in a project area last equalized prior to adoption of the redevelopment plan is established and becomes the base roll. Thereafter, except for any period during which the assessed valuation drops below the base year level, the taxing agencies on behalf of which taxes are levied on property within the project area will receive the taxes produced by the levy of the then current tax rate upon the base roll. Except as discussed in the following paragraph, taxes collected upon any increase in the assessed valuation of the taxable property in a project area over the levy upon the base roll may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing the redevelopment project. Redevelopment agencies themselves have no authority to levy taxes on property and must look specifically to the allocation of taxes produced as above indicated.

The California Legislature placed on the ballot for the November 1988, general election Proposition No. 87 (Assembly Constitutional Amendment No. 56) pertaining to allocation of tax increment revenues. This measure, which was approved by the electorate, authorized the Legislature to cause tax increment revenues attributable to certain increases in tax rates occurring after January 1, 1989, to be allocated to the entities on whose behalf such increased tax rates are levied rather than to the Agency, as would have been the case under prior law. The measure applies to tax rates levied to pay principal of and interest on general obligation bonds approved by the voters on or after January 1, 1989. Assembly Bill 89 (Statutes of 1989, Chapter 250), which implements this Constitutional Amendment, became effective on January 1, 1990. The Agency's projection of tax revenues to be allocated to the Agency does not assume any increase in the tax rate applicable to properties within the Project.

Property Tax Rate and Appropriation Limitations

Article XIII A of State Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation. See "BONDOWNERS' RISKS — Reduction in Inflationary Rate" for a description of litigation pending against the County of Orange relating to the method by which the County of Orange computed this two-percent inflationary increase.

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

The Agency has no power to levy and collect taxes. Any further reduction in the tax rate or the implementation of any constitutional or legislative property tax de-emphasis will reduce tax increment revenues, and, accordingly, would have an adverse impact on the ability of the Agency to pay debt service on the Bonds.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situation." Any such allocation made to a local agency continues as part of its allocation in future years.

Article XIII B of State Constitution

An initiative to amend the California constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, which added Article XIII B to the California Constitution ("Article XIII B"). Under Article XIII B, as amended, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit."

The California State Legislature, by Statutes of 1980, Chapter 1342 enacted a provision of the Law (Health and Safety Code Section 33678) providing that the allocation and payment of taxes to an agency for the purpose of paying principal of or interest on loans, advances or indebtedness incurred for redevelopment activity as defined in the statute shall not be deemed the receipt by the Agency of proceeds of taxes levied by or on behalf of an agency within the meaning or for the purpose of Article XIII B of the State Constitution, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purposes of Article XIII B of the State Constitution or any statutory provision enacted in implementation of Article XIII B.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988/89 Fiscal Year, will be allocated as follows: (1) each jurisdiction, including the Project, will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the method of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

The portion of Tax Revenues allocable to the Agency with respect to the Project and attributable to unitary property was approximately \$301,149 for Fiscal Year 2002-03. The Fiscal Consultant has not included any assumptions of this unitary utility revenue in the Tax Revenue projections appearing in Table 5 below.

Property Tax Administrative Costs

In 1990, SB 2557, and in 1992, SB 1559, authorized county auditors to determine property tax administrative costs proportionately attributable to local jurisdictions and to charge agencies for such costs. The charge resulting from this legislation is estimated by the Fiscal Consultant for purposes of projecting Tax Revenues at two percent of Project Area gross tax increment revenue based on a review of past administrative charges.

Contained in the estimate of this charge is a fee levied by Santa Barbara County since before the passage of the legislative administrative charge. The County continues to apply this offset to revenue as a designated part of the charge mandated by the legislation.

The payments made as property tax administrative charges are not considered tax increment for purposes of computation of the housing set-aside or the determination of compliance with tax increment limits.

Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The secured classification includes property on which any property tax levied by a county becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over all other liens, arising pursuant to State law, 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 taxed unsecured property, but may become a lien on certain other property owned by the taxpayer.

Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes that is delinquent. The taxing authority has four ways of collecting unsecured personal property taxes in the absence of timely payments by the taxpayer: (1) a civil action against the taxpayer, (2) filing a certificate in the office of the county clerk specifying certain facts 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 to obtain a lien on certain property of the taxpayer, and (4) seizure and sale of personal property, improvements or possessory interests belonging or taxable to the assessee.

Current tax payment practices by the County provide for payment to the Agency of Tax Revenues (other than supplemental assessments) in December and April of each year. The County has adopted the Teeter Plan and therefore the Agency expects to receive 100% of its annual apportionment of tax increment allocable to the secured roll, regardless of the collection rate within the Project Area. The County also follows a policy of crediting the Agency with 100% of its annual apportionment of tax increment attributable to the unsecured roll. See "Teeter Plan and County Policy" below.

A ten percent penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is 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 one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County tax collector. A ten percent penalty also applies to delinquent taxes on property on the unsecured roll, and further, an additional penalty of one and one-half percent per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. It is the County's practice to retain all such penalties and interest.

The valuation of property is determined as of March 1 each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31 and such taxes are levied at the prior year's secured tax rate.

Teeter Plan and County Policy

The Santa Barbara County Board of Supervisors on October 15, 1993, adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in section 4701 *et seq.* of the California Revenue and Taxation Code. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments,

penalties and interest. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying or entitled to receipt of property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its fund, in the same manner as if the amount credited had been collected.

In addition, the County adopted a policy similar in effect to the Teeter Plan, in which the County pays to the redevelopment agencies, including the Agency, the full allocation of tax increment revenues attributable to the unsecured roll, regardless of actual *ad valorem* delinquencies.

So long as the Teeter Plan and the County's policy are in effect, the Agency expects to be credited with 100% of its annual apportionment of tax increment allocable to the secured roll and the unsecured roll, regardless of any delinquencies in payment of such taxes. However, the County Board of Supervisors may discontinue the Teeter Plan or the policy at any time, and the Agency cannot assure prospective investors that the Agency will continue to be credited with 100% of its annual apportionment of tax increment in the event of such discontinuation. If the Teeter Plan or the County's policy were terminated, the amount of the levy of *ad valorem* property taxes in the Project Area would depend on the County-wide delinquency rate.

Plan Limitations

Indebtedness

Under the provisions of the Law and the Plan, the Agency may not establish or incur loans, advances, or indebtedness to finance in whole or in part the Project after January 1, 2004. Loans, advances, or indebtedness may be repaid over a period of time beyond such date. These limits, however, do not prevent the Agency from incurring debt to be paid from the Housing Fund established pursuant to Section 33334.3 of the Law and the Plan, or establishing more debt in order to fulfill the Agency's obligations under Section 33413 of the Law and the Plan. This limit does not prevent the Agency from refinancing, refunding or restructuring indebtedness after the time limit if the indebtedness is not increased and the time during which the indebtedness is to be repaid does not exceed the date on which the indebtedness would have been paid.

Additionally, the Agency may not receive and may not repay indebtedness with the proceeds from property taxes received pursuant to Section 33670 of the Law and the Plan after August 30, 2022.

Cumulative Tax Increment/Revenue Limits

The Redevelopment Plan for the Project Area imposes a limitation on the cumulative aggregate amount of tax increment revenues which can be allocated to the Agency from the Project Area from December 1986 through the final date for the receipt of tax increment, which is August 30, 2022. This limit on the cumulative amount of tax increment revenues allocated to the Agency is equal to \$431,130,000. This limit applies to gross tax increment revenues, inclusive of the set-asides for low and moderate income housing. Through June 30, 2003, the Agency had been allocated \$138,197,659 of cumulative tax increment revenues. The Fiscal Consultant has determined that if the growth rate of secured assessed value exceeds 2.37% annually, the tax increment limit could be reached earlier than August 30, 2022 (which is the final date by which the Agency may receive tax increment from the Project Area). The Fiscal Consultant projects that if the annual growth rate of secured assessed value is equal to 5.08% the limit on cumulative tax increment will be reached in Fiscal Year 2018-19 (which is the Agency's Fiscal Year in which the Series 2003A Bonds will finally mature); and if the annual growth rate of secured assessed value is equal to 14.94%, then the limit on cumulative tax increment will be reached in Fiscal Year 2013-14 (which is the Fiscal Year in which the Agency may first redeem Series 2003A Bonds on an optional basis). These projections do not include or consider any potential growth in unsecured assessed value. During the period from Fiscal Year 1999-00 through Fiscal Year 2003-04, the Project Area assessed values increased by approximately 32.1% due to new construction and appreciation in the local real estate economy, which equates to an annual rate of 7.2% during that period.

In the Indenture, the Agency has covenanted to prepare and file with the Trustee an annual accounting of gross tax increment which includes a statement of the tax increment revenue cap less the total amount of tax increment revenues already allocated to the Agency (the "Remaining Limitation Amount"). In the event that the

Remaining Limitation Amount is equal to 105% or less than the debt service on the Bonds and the 1995 Subordinate Bonds, the Bonds and the 1995 Subordinate Bonds will be redeemed, prepaid, or defeased (to the extent permitted by the Indenture) so that the Remaining Limitation Amount is at least equal to 105% of the debt service on the outstanding Bonds and the 1995 Subordinate Bonds. See "FINANCIAL INFORMATION REGARDING TAX REVENUES" and "APPENDIX C — SUMMARY OF INDENTURE."

The following table outlines the limits contained in the Redevelopment Plan.

CENTRAL CITY REDEVELOPMENT PROJECT AREA
Summary of Redevelopment Plan Limits

	<u>Plan Limit</u>
Time Limit for Debt Issuance	January 1, 2004 ^(a)
Time Limit for Plan Effectiveness	August 30, 2012
Time Limit for Receipt of Tax Increment	August 30, 2022
Maximum Tax Increment Collections	\$431,130,000

^(a) May be extended by 10 years based on future findings of blight.

Source: The Agency and Rosenow Spevacek Group, Inc.

Cumulative tax increment received by the Agency through June 30, 2003, was \$138,197,659 for the Central City Redevelopment Project. Tax increment received by the Agency for Fiscal Year 2003-04 for the Central City Redevelopment Project was estimated by the County tax collector, as of August 2003, to be \$12,652,273. See "APPENDIX C — SUMMARY OF INDENTURE."

Low and Moderate Income Housing Fund

Under Section 33334.2 of the Redevelopment Law, redevelopment agencies in California are generally required, unless certain annual findings are made, to set aside 20% of all tax increment allocation annually in a Low and Moderate Income Housing Fund to be used within the jurisdiction of the redevelopment agency to increase and improve the supply of low and moderate income housing.

A redevelopment agency may reduce or eliminate the 20% housing set aside (the "Housing Set-aside") if it annually finds any of the following:

- (1) That no such housing need exists in the community;
- (2) That some percentage less than 20% is sufficient to meet the housing need that exists; or
- (3) That a substantial effort is made from other sources — federal, state and local funds — to meet the housing need, including the community's share of the regional housing need, and that this effort is equivalent to the Housing Set-aside requirement.

The Agency has set aside 20% of the gross tax increment allocated to the Agency, net only of the administrative fee payable to the County.

Assembly Bill 1290

Assembly Bill 1290 (being Chapter 942, Statutes of 1993) ("AB 1290") became law on January 1, 1994. AB 1290 requires redevelopment agencies to adopt certain restrictions, including time limitations for incurring and repaying loans, advances and indebtedness repayable from tax increment revenues, which the Agency has adopted (see "- Plan Limitations" above). The Agency believes that the Series 2003A Bonds are being issued in compliance

with the provisions of AB 1290, and does not expect the AB 1290 limits to adversely affect its ability to pay debt service on the Series 2003A Bonds on a timely basis.

Pass-Through Agreements

Prior to the adoption of AB 1290, a redevelopment agency was authorized to enter into an agreement to pay tax increment revenues to any taxing agency that had territory located within a redevelopment project area in an amount which in the agency's determination was appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provided for a pass-through of tax increment revenues directly to the affected taxing agency, and, therefore, are commonly referred to as "pass-through agreements." There are no pass-through agreements with respect to the Project.

THE AGENCY

Authority and Management

The Agency was activated by the City of Santa Barbara City Council on March 5, 1968 by Ordinance No. 3277 of the City Council pursuant to the Community Redevelopment Law. The City Council was initially constituted as the Agency but in July 1970 the Council appointed five citizens to serve as Agency members. On June 24, 1977, the City Council again declared itself to be the Agency and assumed all the rights, powers, duties, privileges and immunities vested in the Agency and the seven members of the City Council now serve also as the members of the Redevelopment Agency.

The present members and officers of the Agency are as follows:

<u>Name</u>	<u>City Title</u>	<u>Agency Title</u>	<u>Term</u>
Marty Blum	Mayor	Chairperson	2006
Harold Fairly	Councilmember	Agency Member	2004*
Iya G. Falcone	Councilmember	Agency Member	2006
Babatunde Folayemi	Councilmember	Agency Member	2004*
Gregg A. Hart	Councilmember	Agency Member	2004*
Roger L. Horton	Councilmember	Agency Member	2006
Dan B. Secord, M.D.	Councilmember	Agency Member	2006
James L. Armstrong	City Administrator/ City Clerk/Treasurer	Executive Director/ Secretary	—
Paul Casey	Community Development Director	Deputy Director/ Assistant Secretary	—
Robert D. Feirson	Finance Director	Fiscal Officer	—

*Indicated Agency Members' terms will end in January 2004, and new Agency Members' terms will begin. See "APPENDIX D—THE CITY OF SANTA BARBARA—Mayor and City Council."

The administrative officers responsible for the administration of the Agency are James L. Armstrong, Executive Director, Paul Casey, Deputy Director, and David Gustafson, Housing and Redevelopment Manager.

Powers of the Agency

All powers of the Agency are vested in its seven members. Under the Redevelopment Law, the Agency is a separate public body and exercises governmental functions in executing duly adopted redevelopment projects. As such, the Agency has the authority to acquire, develop, administer, and sell or lease property including the right of eminent domain, the right to accept financial assistance from any source, and the power to issue bonds, notes or

other evidences of indebtedness, and expend their proceeds. The Agency itself does not have the power to levy taxes.

The Agency may also clear buildings or other improvements, develop as a building site any real property owned or acquired, and in connection with such development, may provide for the installation of streets, utilities, sidewalks, and other necessary public improvements. With the exception of payment for the construction of publicly owned structures and facilities benefiting a redevelopment project, the Agency itself cannot construct any buildings contemplated under the specific redevelopment plan but must convey property in a redevelopment project by sale or lease for private redevelopment in strict conformity with the redevelopment plan. The Agency may specify a period of time within which such development must begin.

Financial Statements

The Agency is a public entity separate and apart from the City. All accounting records of Agency operations are maintained by the City's Finance Department separately from the accounting records of the City.

Agency financial statements have been audited by independent certified public accountants since the Agency was established. The audited financial statements of the Agency for the fiscal year ended June 30, 2002 are included herein as APPENDIX A. The Agency anticipates that its Fiscal Year 2002-03 audited financial statements will be available on or before December 15, 2003 and such financial statements will be disclosed as part of the first Annual Report (See "APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT").

The Agency has not requested nor did the Agency obtain permission from Brown, Armstrong, Randall, Reyes, Paulden & McCown Accountancy to include the audited financial statements as an appendix to this Official Statement. Accordingly, Brown, Armstrong, Randall, Reyes, Paulden & McCown Accountancy has not performed any post-audit review of the financial condition or operations of the Agency.

THE PROJECT

History

The Central City Redevelopment Project Area was established with the adoption of the Redevelopment Plan for the Project by Ordinance No. 3566 of the Santa Barbara City Council on November 14, 1972. The Redevelopment Plan was substantially amended by the City Council with the adoption of City Ordinance No. 3923 on August 30, 1977. Subsequent amendments occurred with the adoption of City Ordinance No. 4438 on December 16, 1986, by City Ordinance No. 4894 on December 6, 1994, by City Ordinance No. 5085 on November 11, 1998 and by City Ordinance No. 5089 on January 12, 1999. The Redevelopment Plan terminates on August 30, 2012 and is prohibited from receiving tax increment for the repayment of debt after August 30, 2022.

The City Council found that conditions within the Project Area prior to adoption of the Redevelopment Plan met the statutory conditions of blight, which must be found to exist as a prerequisite to initiation of redevelopment activities. These conditions included mixed and incompatible land uses, deteriorated housing, other non-conforming or under-utilized properties, and inadequate public facilities.

Description

The Central City Redevelopment Project Area includes approximately 850 acres in the downtown area of the City of Santa Barbara including the wharf and marina at the foot of lower State Street. The project is bounded by Victoria Street on the north, U.S. Highway 101 on the west, the Ocean front and Harbor on the south and Santa Barbara Street on the east in addition to that area between U.S. 101, the beach, Milpas Street and Santa Barbara Street.

The Agency has completed many of the redevelopment projects, programs and activities envisioned by the Redevelopment Plan. These activities, referred to as "project elements," include the development of low income and moderate income housing, the construction of a major retail shopping center in the heart of the Project Area,

Lower State Street Revitalization Program, Transportation Management Program, the construction of a major public park in the City's waterfront, the acquisition and historic rehabilitation of the former Southern Pacific Railroad Depot now in use by Amtrak, downtown retail parking improvements, a Garden Street extension and improvement, public improvements related to commercial development, and public restroom improvements. Significant tax revenues have been generated by the completion of these project elements and overall the project activities have assisted with spin-off economic redevelopment of the entire Project Area.

All real property in the Project Area is subject to the controls and restrictions of the Redevelopment Plan. The Redevelopment Plan itself is in accordance with standards incorporated in the City General Plan. The Redevelopment Plan requires that all new construction shall meet or exceed the standards set forth in the City's building, electrical, plumbing, mechanical and other applicable construction codes. The Redevelopment Plan further provides that no new improvements shall be constructed and that no existing improvements may be substantially modified, altered, repaired, or rehabilitated except in accordance with site plans submitted and approved by the City Planning Commission.

The Redevelopment Plan allows for commercial-office, residential, industrial and public uses within the Project Area but specifies the particular land use area in which each such use is permitted. The Agency may permit an existing but nonconforming use to remain so long as the existing building is in good condition and is generally compatible with other surrounding developments and uses.

The heights of buildings, architectural controls, and other developments and design controls necessary for proper development within the Project Area are established by the Redevelopment Plan and the City Charter and Municipal Code.

Development Projects

Proceeds from the sale of the 1984, 1985 and 1987 Bonds, together with other Agency funds were used to undertake and complete a majority of Agency projects and programs. The Agency has completed the Lower State Street Revitalization Project, which included the development of three public parking facilities involving 475 parking spaces. A total of six blocks on State Street were landscaped, sidewalks widened, tiled, and improved with planters, benches and fountains. Also, significant traffic improvements were made throughout the Project Area. The 1985 Bonds, together with a portion of the 1987 Bonds were used to assist in the completion of Paseo Nuevo, a 462,300 square foot shopping center with Broadway (now Macy's) and Nordstrom as anchor department store tenants and over 60 retail shops and restaurants. The Agency, together with the developer, constructed 1,650 public parking spaces to support the retail expansion efforts. The total invested by both the Agency and the development company, JMB Realty, is approximately \$200 million. The shopping center has been open and operating since 1989.

In 1993, the Agency issued the Series 1993 Bonds, which were earmarked for the implementation of the Waterfront Park and Hotel Project. This project involves the development of a ten-acre public park together with a private development of an approved 150-room luxury hotel resort complex. Construction was completed on Chase Palm Park in 1997; plans for the hotel are currently under review. In addition, the Agency has completed the acquisition, restoration and improvement of the Santa Barbara Railroad Station Project. This project involved restoration of the City's historic Railroad Depot, site improvements including 220 public parking spaces, landscaping, lighting and passenger services improvements.

In 2001, the Agency issued the Series 2001 Bonds, which funded the completion of two phases of the State Street Sidewalk Improvement Project, the opportunity acquisition of over four acres located in the Waterfront of the Project Area, and most recently, the renovation of the historic Granada Theatre, which is currently underway. The Series 2001 Bonds are also currently funding the Lot 6 Parking Structure (Granada Garage), the Cultural Arts District Plan Property Development including a proposed Ensemble Theatre Development Project, the City/U.S. Army Corps of Engineers Mission Creek Flood Control Project Enhancements project and related property acquisitions. The recipient of the majority of the Series 2001 Bond funds was the 575-space Granada Garage, planned to replace an existing city surface parking lot. The Granada Garage will help meet a downtown parking space shortfall in the immediate vicinity of the parking structure. The Granada Garage design includes approximately 10,000 square feet of occupied floor space for transportation offices and parking structure ancillary

uses and landscaped pedestrian facilities to help meet a critical need for city staff space to provide alternative transportation-related programs and services in the city of Santa Barbara.

Private commercial development in the Project Area is strong, with several new substantial projects either under construction, approved, or in the review process. These projects are indicative of the development climate in the Project Area. Land values are quite high in the Project Area, and vacant or under-utilized parcels are scarce and the subject of much attention regarding potential high quality development. Of particular note are the following:

- An approved 96-room business-class hotel under construction at 31 W. Carrillo Street in the downtown core with a construction value of over \$17,000,000;
- An approved 150-room luxury resort hotel by Fess Parker, adjacent to the existing Fess Parker Doubletree Hotel in the Waterfront, not yet under construction. This hotel is part of the Chase Palm Park Redevelopment Project;
- Ritz-Carlton Club Santa Barbara, a 62-unit luxury timeshare project located on lower State Street near Cabrillo Boulevard, has received various approvals and is projected for construction in the Fall of 2004;
- A 40-unit Residential condominium project on Yanonali Street currently nearing completion;
- Recently completed Ralph's supermarket located at 100 West Carrillo street in the downtown core, with a permit value of \$6,850,000;
- Recently completed Chapala Lofts, a mixed-use development at 328 Chapala Street consisting of 17 units of housing and 13,000 square feet of commercial/retail space with a permit value of \$3,480,000;
- Recently completed \$8,000,000 State Street Sidewalk Improvement Project. The project consisted of a 7-block renovation of the State Street sidewalks the primary thoroughfare in the downtown core. Concrete was replaced with brick pavers, landscaping was enhanced with sandstone features, and existing and new trees were used to frame the elaborate architecture of downtown buildings. Merchants and the public alike have seen a significant increase in foot traffic since the completion of each of the three phases;
- Restoration of the historic Granada Theater is currently underway. The private, non-profit \$15,000,000 renovation will be assisted with a \$3,000,000 secured loan from the Redevelopment Agency and is expected to be complete in the Fall of 2005 and be the anchor of the Cultural Arts District; and
- Recently completed Chapala Lofts (consisting of 17 units of housing and 13,000 square feet of commercial/retail space) and the proposed mixed use Chapala One project, which is located at 401 Chapala Street, and is proposed to include 10,000 square feet of commercial space, 6,000 square feet of office space, and 46 residential condominiums.

Proceeds of the Series 2003 A Bonds will be used to continue the redevelopment activities within the Project including one or more of the Granada Garage, the State Street Sidewalk Improvement Project (400-500 Blocks), Carrillo Street Sidewalk Improvements, 916 State Street Public Restroom Project, the West Downtown Improvement Program, the Carrillo Recreation Center Restoration, Waterfront property Development, Cabrillo/State Restroom Remodel, the Fire Station #1 Remodel, and the Cabrillo Boulevard Sidewalk Project. All of the listed projects have been determined by the City's Community Development Department to be categorically exempt from environmental review under the California Environmental Quality Act ("CEQA") except for the Granada Garage Project which was approved by the City in May 2001 on the basis of a full environmental impact report prepared and approved in accordance with CEQA.

The State Street Sidewalk Improvement Project (400-500 Blocks) is the final stage of a very successful four year project that involves replacing the existing concrete sidewalks with brick pavers, improving business visibility by arranging landscape elements to frame building facades and storefronts, thereby recognizing and enhancing significant architectural elements, and improving the overall pedestrian experience by providing better

pedestrian circulation and pedestrian amenities. The Carrillo Street Sidewalk Improvements would replace the degraded sidewalks with brick pavers in a two-block section of this highly visible and heavily used downtown corridor. The brick pavers would carry the successful theme of the State Street project out to this important thoroughfare.

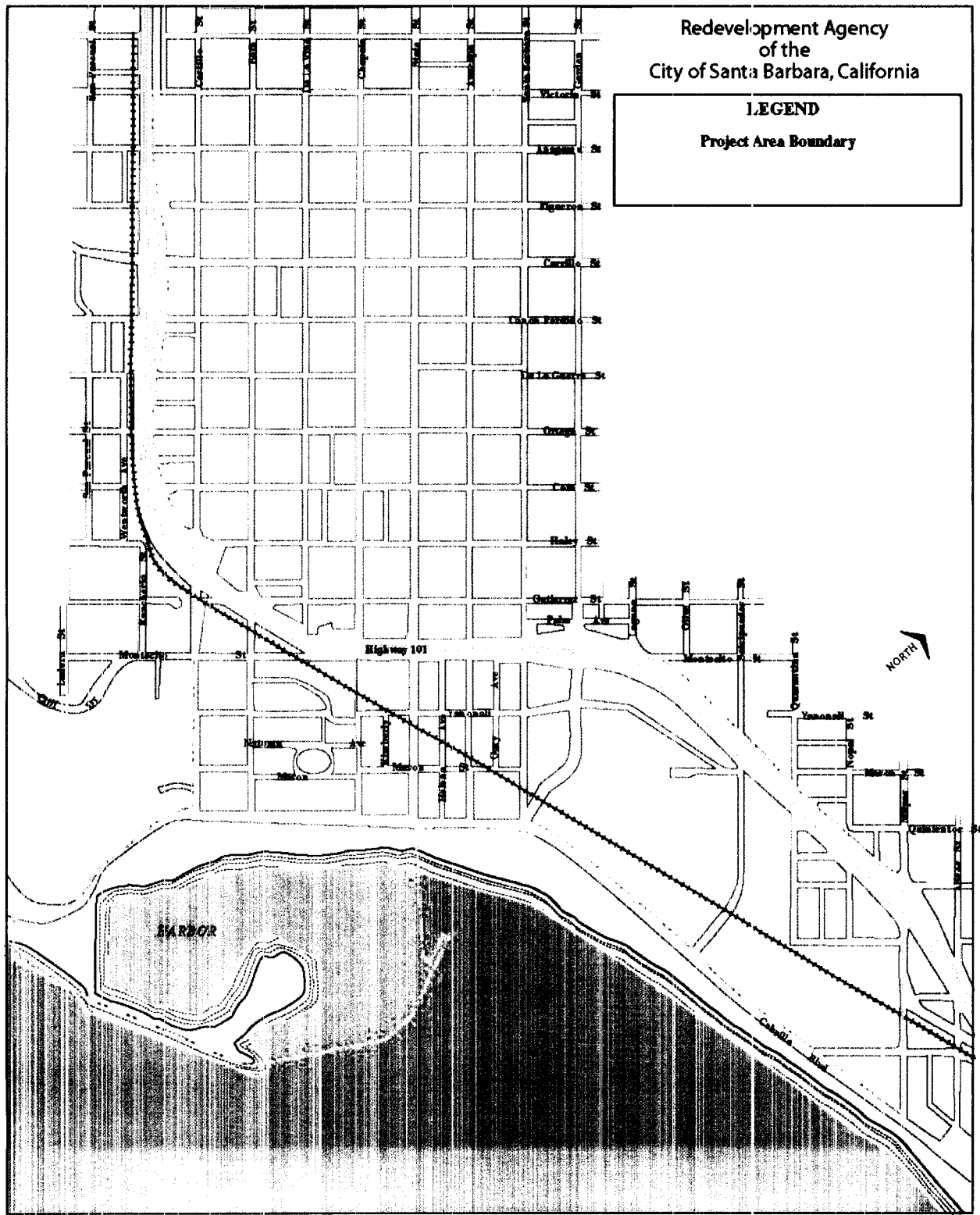
The 916 State Street Restroom project would give the Agency the opportunity to provide a very important public amenity in the Downtown core. The West Downtown Neighborhood Program will allow the Agency the opportunity to upgrade the pedestrian amenities in a key Project Area residential neighborhood by implementing a series of capital programs, fostering a pedestrian connection to the downtown core. The two most prominent capital programs are the Anapamu Street and Ortega Street corridor improvements. These projects would repair and replace sidewalks, improve street landscaping, and provide for better pedestrian lighting in an effort to create safe, pedestrian friendly corridors that would link the West Downtown and the Westside to the Downtown core of the Project Area.

The Carrillo Recreation Center Renovation would completely restore this city landmark building in the heart of downtown. The heavily used recreation center would receive a complete interior remodel consisting of upgraded electrical and plumbing systems, and refurbishment of the auditorium and various activity rooms in an effort to provide the citizens of the Project Area and City a positive recreational experience in a historic building. The Waterfront Property Development would provide funding for possible future development at this Redevelopment Agency-owned property that was purchased using a portion of the Agency's Series 2001 bonds.

The Cabrillo/State Restroom Remodel will provide a strongly needed renovation of a prime waterfront restroom facility. The restroom is located at the foot of historic Stearn's Wharf and is heavily used by locals and tourists. Renovation work will include new plumbing fixtures, new tile, a new electrical system, a new red tile roof, and other general interior and exterior aesthetic improvements. The Fire Station #1 Remodel would provide a complete interior renovation of a public facility which provides emergency services to the Project Area. Activities will include renovating and separating the dormitory facilities and bathrooms, upgrading lighting, doors, windows, security system and the overall energy efficiency of the building which is located in the center of the Project Area. The Cabrillo Boulevard Sidewalk Project will replace the existing sidewalk on this City Scenic Highway from historic Stearn's Wharf to Milpas Street. The site of constant activity, including weekly local art shows, Cabrillo Boulevard is an integral part of the city's beachfront experience. The new sidewalks will include landscaping enhancements and pedestrian amenities such as wood benches and trash cans.

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Santa Barbara Central City Redevelopment Project Area



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FINANCIAL INFORMATION REGARDING TAX REVENUES

The total taxable value of all properties within the Project Area on the property assessment roll last equalized prior to the effective date of the Ordinance adopting the Redevelopment Plan for the Project established a base from which increases in taxable value are computed. The base so established for the Central City Redevelopment Project Area is the 1972-73 assessment roll. Under the Redevelopment Law, property taxes levied based upon the amount shown on the 1972-73 assessment roll will continue to be paid to and retained by all taxing agencies levying property taxes in the Project Area.

The Agency has retained Rosenow Spivacek Group, Inc. to analyze Project Area Tax Revenues and to project future Tax Revenues. Their report is included as APPENDIX B and should be read in its entirety. The Project Area base year assessed valuation is \$126,515,373. The assessed valuation for Fiscal Year 2003-04 is \$1,391,742,658 which produces a total incremental value of \$1,265,227,312. Table 2 provides a summary of Project Area Taxable Values for Fiscal Years 1999-00 through 2003-04. Table 3 provides a summary of the assessed valuations by land use based on Fiscal Year 2003-04 assessed values.

The Agency has not entered into any tax sharing or pass through agreements with any taxing agencies.

Table 2

HISTORIC ASSESSED VALUES CENTRAL CITY REDEVELOPMENT PROJECT

Value	1999-00	2000-01	2001-02	2002-03	2003-04
Secured ⁽¹⁾	\$869,667,221	\$978,226,328	\$1,045,801,713	\$1,112,606,252	\$1,157,799,198
Unsecured	172,343,113	203,618,295	216,818,104	228,957,836	232,693,845
Utility	11,333,342	6,919,172	6,965,541	7,590,231	1,249,642
Total Assessed	\$1,053,343,676	\$1,188,763,795	\$1,269,585,358	\$1,349,154,319	\$1,391,742,658
<i>(Change over Prior Year)</i>	-	13%	7%	6%	3%
Base Year	(126,515,373)	(126,515,373)	(126,515,373)	(126,515,373)	(126,515,373)
Incremental	\$926,828,303	\$1,062,248,422	\$1,143,069,985	\$1,222,638,946	\$1,265,227,312
<i>(Change over Prior Year)</i>	-	15%	8%	7%	3%

⁽¹⁾ Amounts are calculated after taking into consideration any homeowners' deductions.

Source: City of Santa Barbara

During the period from Fiscal Year 1999-00 through Fiscal Year 2003-04, the Project Area assessed values have increased by approximately 32.1%, due to new construction and appreciation in the local real estate economy. The Fiscal Consultant has projected that if the annual secured assessed value growth rate in the Project Area is 5.08%, the cumulative tax increment will be reached in 2018-19 (which is in the Agency's Fiscal Year in which the Series 2003A Bonds will finally mature). See "TAX ALLOCATION FINANCING—Plan Limitations—Cumulative Tax Increment/Revenue Limits."

Table 3

**2003-04 TOTAL ASSESSED VALUE BY LAND USE CATEGORY
CENTRAL CITY REDEVELOPMENT PROJECT**

Land-Use Category	2003-04 Assessed Valuation⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial	\$ 650,362,210	56.09%	681	38.43%
Vacant Commercial	6,343,875	0.55	37	2.09
Hotel/Motel	161,537,663	13.93	36	2.03
Industrial	82,415,268	7.11	119	6.72
Vacant Industrial	8,810,915	0.76	33	1.86
Recreational	4,430,878	0.38	11	0.62
Government/Social/Institutional	189,250	0.02	28	1.58
Miscellaneous	440,528	0.04	31	1.75
Subtotal Non-Residential	\$ 914,530,587	78.87%	976	55.08%
Residential:				
Single Family Residence	\$55,110,540	4.75%	258	14.56%
Condominium/Townhouse	44,835,851	3.87	119	6.72
Mobile Home	470,801	0.04	2	0.11
2-4 Residential Units	72,375,990	6.24	259	14.62
5+ Residential Units/Apartments	67,001,439	5.78	118	6.66
Vacant Residential	5,049,286	0.44	37	2.09
Subtotal Residential	\$244,843,907	21.12%	793	44.75%
Unknown Use	\$163,611	0.01%	3	0.17%
Total	\$1,159,538,105	100.00%	1,772	100.00%

⁽¹⁾ Local Secured Assessed Valuation; excluding tax-exempt property. Amounts are calculated before taking into consideration any homeowners' deductions.

Source: Metroscan

Tax Rates

The tax increment revenue is based on the 1% general tax levy rate.

Table 4

HISTORIC TAX INCREMENT COLLECTIONS CENTRAL CITY REDEVELOPMENT PROJECT

	1998-99		1999-00		2000-01		2001-02		2002-03	
Total Due ¹	\$8,840,095	100%	\$9,268,283	100%	\$10,622,484	100%	\$11,430,700	100%	\$12,226,389	100%
Actual Receipts ²										
Secured ³	7,423,478	84%	7,842,139	85%	8,882,504	84%	9,559,377	84%	10,234,201	84%
Unsecured	1,416,617	16%	1,427,229	15%	1,739,980	16%	1,871,979	16%	1,993,377	16%
Subtotal	\$8,840,095	100%	\$9,269,368	100%	\$10,622,484	100%	\$11,431,356	100%	\$12,227,578	100%
Unitary Utility	\$244,642	3%	249,239	3%	257,735	2%	282,198	2%	301,149	2%
Supplemental	333,553	4%	305,866	3%	502,030	5%	356,913	3%	535,977	4%
Interest	30,859	0%	12,565	0%	10,518	0%	18,727	0%	12,461	0%
Total	\$9,449,149	107%	\$9,837,038	106%	\$11,392,767	107%	\$12,089,694	106%	\$13,077,165	107%
Admin Fees	(214,191)	-2%	(212,915)	-2%	(209,542)	-2%	(237,06)	-2%	(226,247)	-2%
Total Receipts ⁴	\$9,234,958	104%	\$9,624,123	104%	\$11,183,225	105%	\$11,852,588	104%	\$12,850,918	105%

(1) From Santa Barbara County Auditor-Controller, based on Total Assessed Value and annual tax levy rate.

(2) From City of Santa Barbara Finance Department statements.

(3) Includes taxes from local secured and state nonunitary utility rolls.

(4) "Total Receipts" include supplemental and interest revenues, which are not included under "Total Due" above in Table 4.

Source: Rosenow Spevacek Group, Inc.

At present, the Agency participates in the Teeter Plan pursuant to which the Agency assumes no risk in the collection of property taxes. However, in the future the Agency may opt out of the Teeter Plan or the County may opt to cancel the Teeter Plan. See "TAX ALLOCATION FINANCING—Teeter Plan and County Policy."

Projected Tax Revenues

The following table shows the projected Tax Revenues for the Project Area for the Fiscal Years 2003-04 through 2021-22. While the projections are based on assumptions which are believed by the Fiscal Consultant to be reasonable, there can be no assurance that such projections will be realized. See "BONDHOLDERS' RISK" herein. The projections of Tax Revenues are based on the following assumptions:

(1) The projections include the assumption that the Project Area's secured assessed value will increase by two percent annually, as allowed by Article XIII A of the California Constitution, and that the Project Area's unsecured values will remain constant. See "APPENDIX B — FISCAL CONSULTANT'S REPORT" and "TAX ALLOCATION FINANCING — Property Tax Rate and Appropriation Limitations — Article XIII A of State Constitution." See also "BONDOWNERS' RISKS — Reduction in Assessed Value" and "— Increases in Assessed Value."

(2) The tax increment projections assume that (1) the County's administrative fee will be offset by utility, supplemental and interest revenue and (2) the collection rate of the Agency's tax increment revenue remain consistent with the historical collection rate (that is, at least 100%). See "APPENDIX B — FISCAL CONSULTANT'S REPORT."

(3) The tax increment projections assume that the general tax levy rate applicable to properties within the Project Area will continue to be 1.0%. See "APPENDIX B — FISCAL CONSULTANT'S REPORT."

The following table does not reflect any of the adjustments to Tax Revenues that the Indenture requires in calculating when the Agency may issue additional Parity Debt. These adjustments include an adjustment for pending assessment appeals by the top 20 taxpayers within the Project Area. See "SECURITY FOR THE SERIES 2003A BONDS — Issuance of Parity Debt" for a description of the test the Agency must meet to issue additional Parity Debt. In addition, see "APPENDIX B — FISCAL CONSULTANT'S REPORT — Additional Bonds Parity Test" for a description of how these adjustments would have impacted the Tax Revenues in Fiscal Year 2003-04.

Table 5

**TAX INCREMENT PROJECTIONS
CENTRAL CITY REDEVELOPMENT PROJECT**

Fiscal Year	Growth Rate	Projected Assessed Values			Gross Tax Increment			Housing Fund 20%	Redevelop. Fund 80%
		Secured ⁽¹⁾	Unsecured ⁽²⁾	Total	Incremental	Annual 1.00000%	Cumulative ⁽³⁾		
1972-73		\$ 96,895,229	\$ 29,620,144	\$ 126,515,373					
2003-04	Actual	\$1,159,048,840	\$232,693,845	\$1,391,742,685	\$1,265,227,312	Through 2002-03: \$12,652,273	\$138,197,659	\$2,530,455	\$10,121,818
2004-05	2.0%	1,182,229,817	232,693,845	1,414,923,662	1,288,408,289	12,884,083	150,849,932	2,576,817	10,307,266
2005-06	2.0%	1,205,874,413	232,693,845	1,438,568,258	1,312,052,885	13,120,529	163,734,015	2,624,106	10,496,423
2006-07	2.0%	1,229,991,901	232,693,845	1,462,685,746	1,336,170,373	13,361,704	176,854,544	2,672,341	10,689,363
2007-08	2.0%	1,254,591,739	232,693,845	1,487,285,584	1,360,770,211	13,607,702	190,216,248	2,721,540	10,886,162
2008-09	2.0%	1,279,683,574	232,693,845	1,512,377,419	1,385,862,046	13,858,620	203,823,950	2,771,724	11,086,896
2009-10	2.0%	1,305,277,246	232,693,845	1,537,971,091	1,411,455,718	14,114,557	217,682,570	2,822,911	11,291,646
2010-11	2.0%	1,331,382,791	232,693,845	1,564,076,636	1,437,561,263	14,375,613	231,797,127	2,875,123	11,500,490
2011-12	2.0%	1,358,010,446	232,693,845	1,590,704,291	1,464,188,918	14,641,889	246,172,740	2,928,378	11,713,511
2012-13	2.0%	1,358,170,655	232,693,845	1,617,864,500	1,491,349,127	14,913,491	260,814,629	2,982,698	11,930,793
2013-14	2.0%	1,412,874,068	232,693,845	1,645,567,913	1,519,052,540	15,190,525	275,728,120	3,038,105	12,152,420
2014-15	2.0%	1,441,131,550	232,693,845	1,673,825,395	1,547,310,022	15,473,100	290,918,646	3,094,620	12,378,480
2015-16	2.0%	1,469,954,181	232,693,845	1,702,648,026	1,576,132,653	15,761,327	306,391,746	3,152,265	12,609,061
2016-17	2.0%	1,499,353,264	232,693,845	1,732,047,109	1,605,531,736	16,055,317	322,153,073	3,211,063	12,844,254
2017-18	2.0%	1,529,340,330	232,693,845	1,762,034,175	1,635,518,802	16,355,188	338,208,390	3,271,038	13,084,150
2018-19	2.0%	1,559,927,136	232,693,845	1,792,620,981	1,666,105,608	16,661,056	354,563,578	3,332,211	13,328,845
2019-20	2.0%	1,591,125,679	232,693,845	1,823,819,524	1,697,304,151	16,973,042	371,224,634	3,394,608	13,578,433
2020-21	2.0%	1,622,948,193	232,693,845	1,855,642,038	1,729,126,665	17,291,267	388,197,676	3,458,253	13,833,013
2021-22	2.0%	1,655,407,156	232,693,845	1,888,101,001	1,761,585,628	17,615,856	405,488,942	3,523,171	14,092,685

⁽¹⁾ Includes local secured and State nonunitary utility values. Secured growth assumptions itemized in Table 2 of Fiscal Consultant's Report.

⁽²⁾ Since unsecured values are not subject to annual inflationary increases, and are by nature subject to unpredictable increases and decreases, the projected unsecured assessed values were held constant.

⁽³⁾ Cumulative since \$431,130,000 tax increment limit went into effect on January 15, 1987.

Source: Rosenow Spevacek Group, Inc.

Top Taxpayers

The following lists the ten largest property owners within the Project Area as of the Fiscal Year ended June 30, 2003 and the assessed valuations for the related properties for the Fiscal Year ending June 30, 2004. The top ten taxpayers comprise approximately \$284 million (26%) of the Project Area's 2003-04 secured assessed value.

Table 6

TOP 10 SECURED TAXPAYERS CENTRAL CITY REDEVELOPMENT PROJECT

Owner	Parcels	Existing Land Use(s)	2003-04 Secured Assessed Value	% of Project Area Assessed Value
Old Town Mall/Paseo Nuevo Assoc. ⁽¹⁾	5	Retail, Department Store, Shopping Center	\$ 78,706,006	6.80%
Fess Parker Doubletree Hotel	1	Hotel	71,821,555	6.20
ESJ Centers	3	Retail, Shopping Center	24,394,756	2.11
Chapala Street Investors	1	Light Manufacturing, Office, Supermarket	23,076,174	1.99
Ampersand Publishing	3	Light Manufacturing, Office, Parking Lot	19,091,822	1.65
Wright Family Limited Partnership	18	Warehousing, Storage, Parking Lot	15,183,161	1.31
Beach Motel Partners	2	Hotel	13,881,075	1.20
1129 State Street	4	Retail, Office	13,717,442	1.18
Sima El Paso LLC	4	Store, Office	12,828,805	1.11
1221 Victoria Court LP	5	Store, Office Restaurant	11,735,815	1.01
	46		\$ 284,436,611	24.57

Total Project Area 2003-04 Secured Value

\$ 1,157,799,198

⁽¹⁾ The Agency owns the indicated parcels and leases those parcels to the Old Town Mall/Paseo Nuevo Association, which is responsible for the payment of property taxes related thereto.

Source: Metroscan, City of Santa Barbara

In calculating Tax Revenues when determining if the Agency may issue additional Parity Debt under the Indenture, Tax Revenues are decreased by an amount that Tax Revenues would decrease if all pending assessment appeals by the top 20 taxpayers within the Project Area were to be determined in favor of such property owners in the full amount requested in such appeals. See "SECURITY FOR THE SERIES 2003 BONDS—Issuance of Parity Debt."

Debt Service and Estimated Coverage

The following table sets forth the debt service and estimated coverage on the Outstanding Parity Bonds beginning in Fiscal Year 2003-04 and ending in Fiscal Year 2018-19. Estimated total revenues are based on the following assumptions:

1. The Fiscal Consultant's projections of net Tax Revenues as summarized in Table 5 and as set forth in APPENDIX B hereto are realized through Fiscal Year 2018-19.
2. The debt service is based on the maturity schedule and interest rates for the Series 2003A Bonds as set forth on the inside cover page hereof.

Table 7

Debt Service and Estimated Coverage

Fiscal Year	Series 2003A Bonds	Series 1993 Bonds ⁽¹⁾	Series 1995 Bonds	Series 2001 Bonds	Total Parity Debt Service	Redevelopment Fund Tax Increment ⁽²⁾	Maximum Annual Parity Debt Service Coverage(x)	1995 Subordinate Bonds	Total Debt Service	Maximum Annual Debt Service Coverage(x)
2003-4	\$2,351,963	\$226,511	\$3,168,788	\$1,764,854	\$7,512,116	\$10,121,818	1.35	\$772,700	\$8,284,816	1.22
2004-5	3,359,830	-	2,389,800	1,764,854	7,514,484	10,307,266	1.37	720,500	8,234,984	1.25
2005-6	3,378,130	-	2,369,100	1,764,854	7,512,084	10,496,423	1.40	719,200	8,231,284	1.27
2006-7	3,395,230	-	2,353,000	1,764,854	7,513,084	10,689,363	1.42	720,800	8,233,884	1.30
2007-8	2,286,130	-	3,460,900	1,764,854	7,511,884	10,886,162	1.45	-	7,511,884	1.45
2008-9	2,966,230	-	-	4,549,854	7,516,084	11,086,896	1.48	-	7,516,084	1.48
2009-10	2,970,430	-	-	4,544,973	7,515,403	11,291,646	1.50	-	7,515,403	1.50
2010-11	2,967,830	-	-	4,545,554	7,513,384	11,500,490	1.53	-	7,513,384	1.53
2011-12	2,969,080	-	-	4,546,185	7,515,265	11,713,511	1.56	-	7,515,265	1.56
2012-13	2,961,455	-	-	4,551,165	7,512,620	11,930,793	1.59	-	7,512,620	1.59
2013-14	2,959,455	-	-	4,553,565	7,513,020	12,152,420	1.62	-	7,513,020	1.62
2014-15	2,962,205	-	-	4,550,785	7,512,990	12,378,480	1.65	-	7,512,990	1.65
2015-16	2,954,205	-	-	4,557,290	7,511,495	12,609,061	1.68	-	7,511,495	1.68
2016-17	2,955,405	-	-	4,556,810	7,512,215	12,844,254	1.71	-	7,512,215	1.71
2017-18	2,956,905	-	-	4,558,750	7,515,655	13,084,150	1.74	-	7,515,655	1.74
2018-19	2,956,905	-	-	4,557,000	7,513,905	13,328,845	1.77	-	7,513,905	1.77

⁽¹⁾ Reflects debt service paid on September 1, 2003. The Outstanding Series 1993 Bonds will be refunded with a portion of the proceeds of the Series 2003A Bonds. See "THE SERIES 2003A BONDS—Plan of Refunding."

⁽²⁾ Based on projections set forth in Fiscal Consultant Report. See "APPENDIX B—FISCAL CONSULTANT REPORT." As a result, the numbers listed under indicated column do not make certain adjustments to Tax Revenues for purposes of calculating the Tax Revenues for purposes of issuing additional Parity Debt. See "SECURITY FOR THE SERIES 2003A BONDS—Issuance of Parity Debt" for a description of the conditions the Agency must meet to issue additional Parity Debt, and see "APPENDIX B—FISCAL CONSULTANT REPORT Additional Bonds Parity Test" for a description of how these adjustments would have impacted the Tax Revenues in Fiscal Year 2003-04.

Pursuant to the Indenture, the Agency must meet certain debt service coverage tests before issuing additional Parity Debt. When calculating those tests, certain adjustments are made to the amount of Tax Revenues, including a reduction of Tax Revenues for amounts for which any of the top 20 taxpayers in the Project Area is prosecuting an assessment appeal. See "SECURITY FOR THE SERIES 2003A BONDS—Issuance of Parity Debt."

The estimates in Table 7 are based on the assumption that the Agency will not issue any Bonds other than the Outstanding Parity Bonds and that it will not incur any additional Parity Debt for the Project Area during the years shown. The time limit for the Agency to incur additional Parity Debt is January 1, 2004. Whereas the Agency has the option of amending the Redevelopment Plan to extend that date under certain circumstances, there are no current plans for the Agency to do so. See "APPENDIX C — SUMMARY OF INDENTURE."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLC, Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2003A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2003A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed opinion of Bond Counsel is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the Series 2003A Bonds is less than the amount to be paid at maturity of such Series 2003A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2003A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2003A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2003A Bonds is the first price at which a substantial amount of such maturity of the Series 2003A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2003A Bonds accrues daily over the term to maturity of such Series 2003A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2003A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2003A Bonds. Owners of the Series 2003A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2003A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 2003A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2003A Bonds is sold to the public.

Series 2003A Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax-exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various requirements that must be met in order for interest on the Series 2003A Bonds to be excluded from gross income for federal income tax purposes. The Issuer has made representations related to certain of these requirements and has covenanted to comply with certain of these requirements. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2003A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2003A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with

these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2003A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2003A Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2003A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2003A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLC.

Although Bond Counsel is of the opinion that interest on the Series 2003A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2003A Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Series 2003A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Series 2003A Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2003A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Series 2003A Bonds for audit examination, or the course or result of any IRS examination of the Series 2003A Bonds, or obligations which present similar tax issues, will not affect the market price for the Series 2003A Bonds.

CERTAIN LEGAL MATTERS

Orrick, Herrington & Sutcliffe LLC, Los Angeles, California, Bond Counsel, will render an opinion approving the validity of the Series 2003A Bonds substantially in the form set forth in APPENDIX E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Agency by the Agency Counsel and by Orrick, Herrington & Sutcliffe LLC, Los Angeles, California, Disclosure Counsel. Jones Hall, A Professional Law Corporation, San Francisco, California, will pass upon certain legal matters for the Underwriter.

ABSENCE OF LITIGATION

There is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Agency or the Authority to restrain or enjoin the authorization, issuance or delivery of the Series 2003A Bonds or the collection of Tax Revenues or the pledge of the Tax Revenues or the collection of the payments to be made pursuant to the Indenture, or the existence or the powers of the Agency and the Authority or the titles of any of their officers to their respective offices, or in any way contesting or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Series 2003A Bonds.

RATINGS

Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service ("Moody's") have given the Series 2003A Bonds the rating of "AAA" and "Aaa", respectively, based upon the issuance of the Insurance Policy by the Insurer. See "BOND INSURANCE FOR THE SERIES 2003A BONDS." Such ratings reflect only the view of such organizations and an explanation of the significance of such ratings may be obtained as follows: S&P, 55 Water Street, New York, New York 10041, (212) 438-2124 and Moody's, 99 Church Street, New York, New York 10007, (212) 553-0300. There is no assurance that such ratings will continue for any given period of time or that

they will not be revised downward or withdrawn entirely by S&P or Moody's if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2003A Bonds.

In addition, S&P and Moody's have assigned underlying ratings (which are ratings that do not take into consideration the Insurance Policy) of "A-" and "A3" respectively, to the Series 2003A Bonds.

UNDERWRITING

The Series 2003A Bonds are to be purchased by Morgan Stanley & Co. Incorporated, as Underwriter, pursuant to a Bond Purchase Contract among the Underwriter, the Agency, and the Santa Barbara Financing Authority. The Underwriter will purchase the Series 2003A Bonds at a price of \$35,732,511.63, which reflects the par amount of the Series 2003A Bonds of \$34,810,000, plus original issue premium of \$1,133,830.25 less an underwriter's discount of \$211,318.62. The Underwriter is committed to purchase all the Series 2003A Bonds if any are purchased. The Underwriter may offer and sell the Series 2003A Bonds to certain dealers (including depositing the Series 2003A Bonds into investment trusts) and others at prices lower than the offering prices stated on the inside cover of this Official Statement. After the initial public offering, the public offering prices of the Series 2003A Bonds may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

The Agency has entered into an agreement with Kelling, Northcross & Nobriga (the "Financial Advisor") whereunder the Financial Advisor provides financial advisory services to the Agency with respect to the preparation and sale of the Series 2003A Bonds. The Financial Advisor has read and participated in the drafting of certain portions of this Official Statement and has supervised the completion and editing thereof. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the Agency, with respect to accuracy and completeness of disclosure of such information, and the Financial Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement.

VERIFICATION

Grant Thornton LLP, certified public accountants, will verify as to the Escrow Agreement, the mathematical accuracy as of the date of the closing on the Series 2003A Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the investment of cash and direct obligations of the United States will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Series 1993 Bonds on March 1, 2004.

The report of Grant Thornton LLP will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

AVAILABILITY OF DOCUMENTS

Copies of the Indenture will be available upon written request, from the Agency.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or Owners of any of the Series 2003A Bonds.

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

REDEVELOPMENT AGENCY OF
THE CITY OF SANTA BARBARA

By: /s/ James L. Armstrong
James L. Armstrong
Executive Director

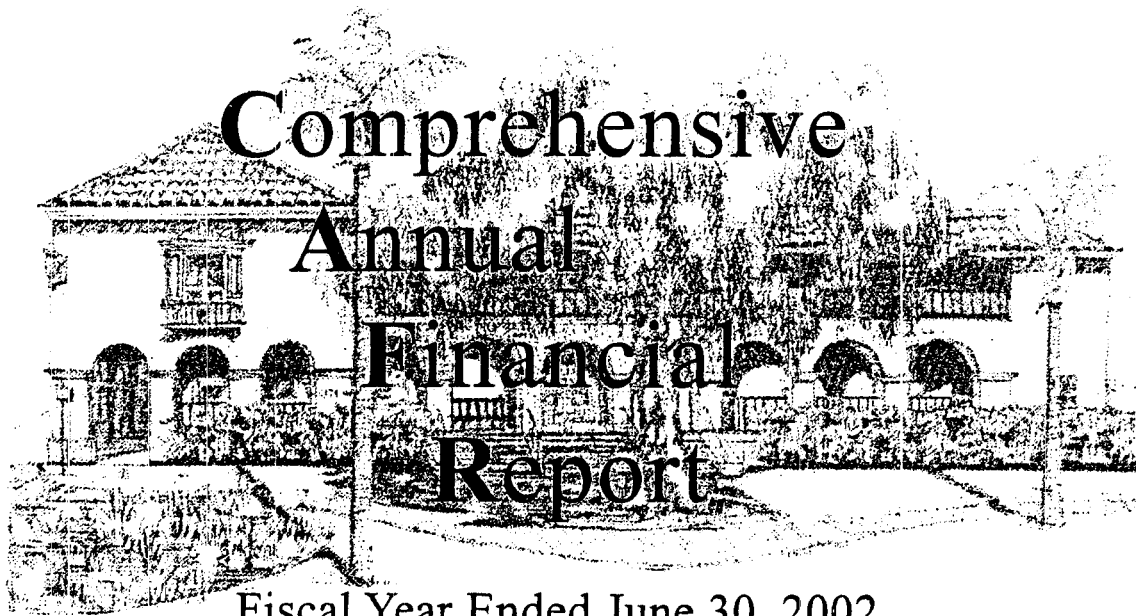
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APPENDIX A
AGENCY AUDITED FINANCIAL REPORT FOR
THE FISCAL YEAR ENDED JUNE 30, 2002

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City of Santa Barbara
California
Redevelopment Agency

A Component Unit of the City of Santa Barbara



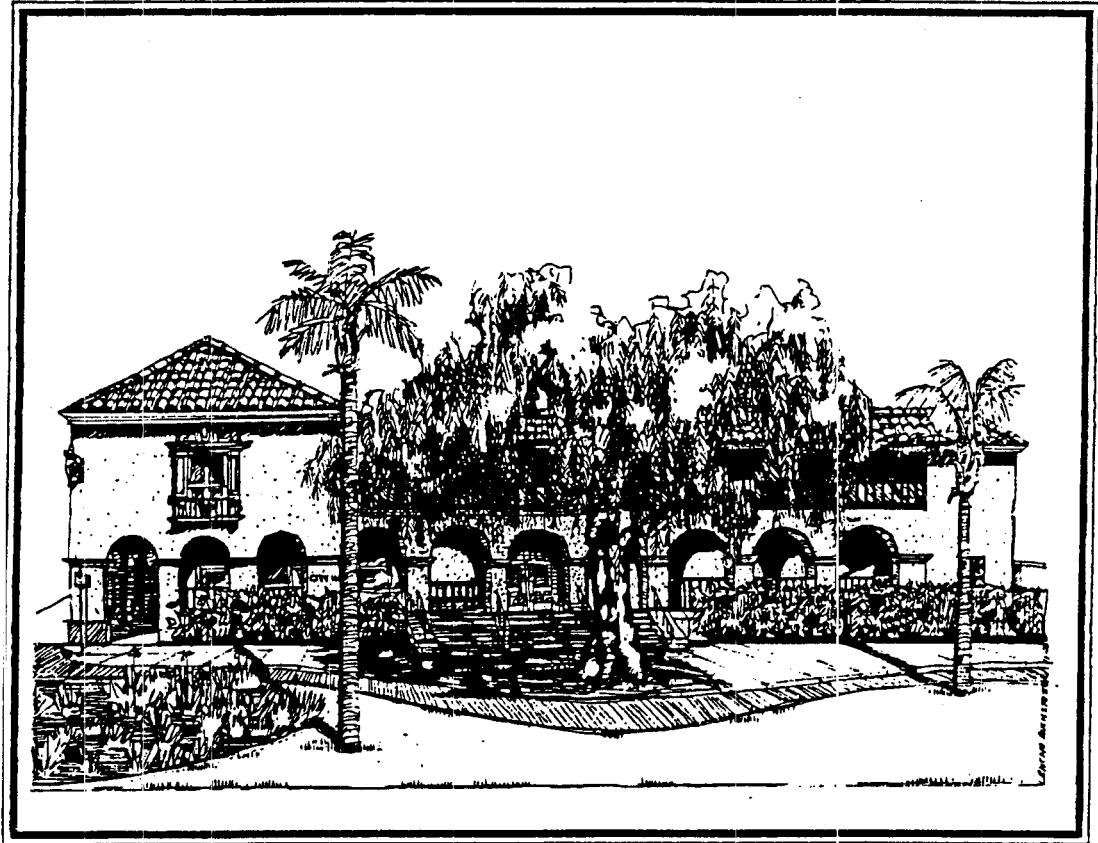
**Redevelopment Agency
of the City of
Santa Barbara, California**

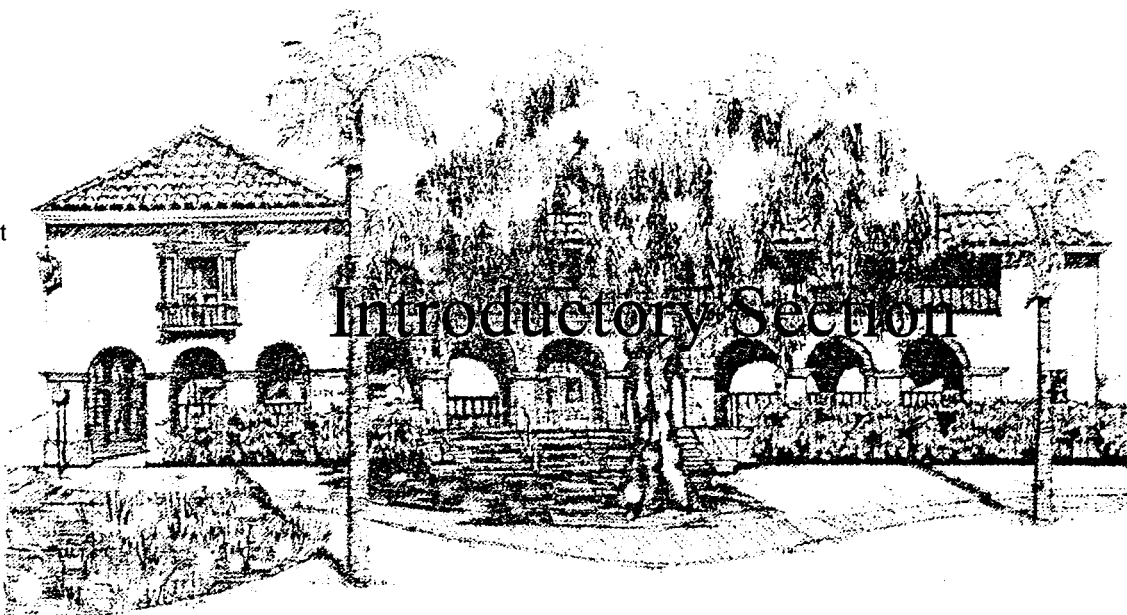
A Component Unit of the City of Santa Barbara

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FISCAL YEAR ENDED JUNE 30, 2002

ROBERT D. PEIRSON, AGENCY TREASURER

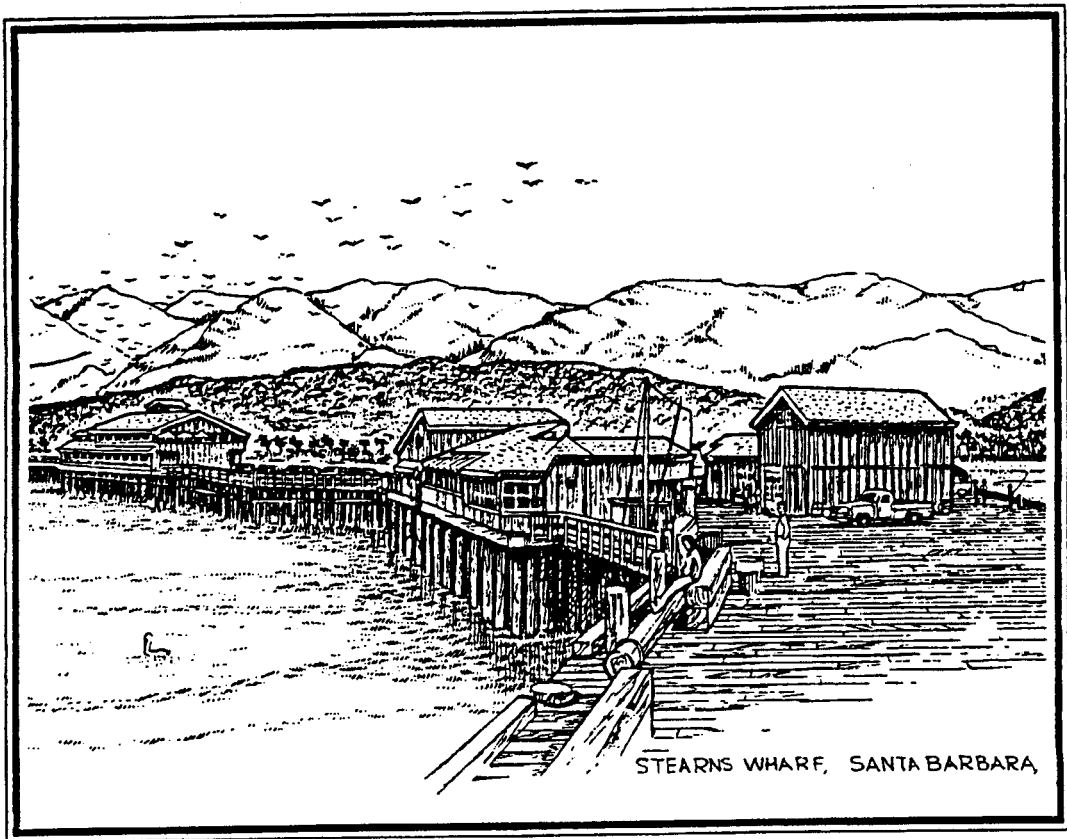




REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Fiscal year ended June 30, 2002

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FINANCE DEPARTMENT

City of Santa Barbara

ADMINISTRATION	564-5334
TREASURY	564-5334
ACCOUNTING	564-5340
PAYROLL	564-5358
BILLING/COLLECTION	564-5344
RISK MANAGEMENT	564-5347
FAX	897-1978



CITY HALL
DE LA GUERRA PLAZA
POST OFFICE BOX 1990
SANTA BARBARA, CA 93102-1990

PURCHASING	564-5349
PURCHASING FAX	897-1977

California

September 20, 2002

The Honorable Chairperson and the Members of the Redevelopment Agency:

The comprehensive annual financial report of the Redevelopment Agency of the City of Santa Barbara (Agency) for the fiscal year ended June 30, 2002 is herewith submitted. This report was prepared by the Finance Department of the City of Santa Barbara (City) on behalf of the Agency. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Agency. To the best of our knowledge and belief, the data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Agency. All disclosures necessary to enable the reader to gain an understanding of the Agency's financial activities have been included.

The comprehensive annual financial report is presented in five sections: the introductory section, which includes the transmittal letter; the financial section, which includes management's discussion and analysis and the basic financial statements; the statistical section; the compliance and internal control section and the Agency's Annual Program Report and Work Program Section. The financial of section this report has been audited by the firm of Brown Armstrong Paulden McCown Starbuck & Keater, whose opinion thereon is included as an integral part of this report.

ECONOMIC CONDITION AND OUTLOOK

The State of California experienced strong economic growth during 1999 and much of 2000, fueled by low rates of interest, inflation and unemployment, and by overall consumer confidence. During the first half of 2001, the economy had shown signs of weakening with major indices posting significant declines. The tragic events of September 11 had major economic impacts across the nation and across world markets. The significant slowdown in the national economy appears to have touched the City of Santa Barbara as well, with significant reductions in those revenues directly related to consumer spending, such as sales taxes and transient occupancy tax revenues.

Local property taxes, the primary and largest revenue source of the Redevelopment Agency, however, continue to increase although at a slower rate than the previous two years. The residential real estate market in Santa Barbara has been very active during the last couple of years. The median price of residential real estate on the South Coast, which includes Goleta, Santa Barbara, Montecito and Carpinteria, is currently \$648,000, up 2% from a year ago. As a result, increasing property tax revenues are expected to continue as the effects of real estate prices are realized through higher assessed property values.

As the Redevelopment Agency moves into its final 9 years of operation, numerous operational challenges await it. Beginning in the fall of 2002, Agency staff is in the initial stages of engaging in the critical task of establishing strategies to maximize its financial and physical impacts over the next 9 years and to create programs to succeed the Redevelopment Agency. Included amongst the strategies is the development of a long-range debt strategy for which the Agency must define projects that may be appropriate for Redevelopment Agency bond funding. The Agency has determined that the most appropriate mechanism to accomplish these tasks is to develop a Redevelopment Agency long-range capital improvement program (RDA CIP). The first step in the RDA CIP is to solicit appropriate project proposals from various City Departments. By early 2003, the Redevelopment Agency hopes to have compiled a list of major projects and programs that Agency funding can assist in their completion.

MAJOR INITIATIVES

Downtown Sidewalk and Landscaping - Phase III

Phase III of the State Street Sidewalk Improvement Project included sidewalk and landscaping improvements to the 600 and 700 Blocks of State Street, between Cota Street and De la Guerra Street. The design team of Penfield & Smith Engineering and Arcadia Studio, landscape architects, was awarded a contract for \$117,000 by the City of Santa Barbara to develop a preliminary design for the project as part of Phase III. In June 2001, the City awarded a final design contract to the same design team for \$115,500.

The redesign of the State Street sidewalks is consistent with the sidewalk and landscape improvements completed in the 800 through 1200 Blocks of State Street (Phase I and II) completed in 1999 and 2001, respectively. Activities in Fiscal Year 2001 consisted of the completion of preliminary design and the beginning of the final design.

The total appropriated for construction for Phase III (600 and 700 Blocks) was \$1,705,355. The construction contract was awarded to Lash Construction on January 8, 2002 in the total amount of \$1,598,594. Also awarded at that time was a professional construction support services contract to Penfield and Smith for a total of \$94,006. Fugro West was awarded the contract for soils and concrete testing for \$7,000. Science Applications International Corporation was contracted for archaeological work for \$5,755. As in the prior construction phases, the Downtown Organization mounted an aggressive promotional campaign to ensure public awareness of "business as usual" within the project area. Their grant totaled \$46,000. The Downtown Organization's 17-week campaign started two weeks prior to construction and included holding weekly merchant meetings, publicity, advertising, entertainment and the grand opening celebration. The City's Public Works Department received over \$71,000 for their role in providing construction administration services. The Phase III basic project was funded by the Agency's tax allocation bond proceeds (Series 2001A) that became available in July 2001.

A subcomponent of Phase III was an art bench designed by local artist, Donald Davis. In July 2001, the City Visual Arts Coordinator circulated a Request for Qualifications for the Bench Project to replace a planter in the 600 Block of State Street. A selection committee comprised of an Agency Boardmember, an Old Town Merchants Association member, the Santa Barbara County Arts Commissioner, and project landscape architect Bob Cunningham chose Donald Davis from a field of three qualified artists. The Redevelopment Agency guided the design process, which was approved by the Historic Landmarks Commission. The artist developed a scale model, provided a sample of the sculpted brick and oversaw the installation of the bench. The artist received \$12,000 for his work.

Phase III of the project was begun in the last week of January. The sidewalks were opened to the public in time for the Memorial Day weekend. Construction hours accommodated periods of high public use and the popular Farmer's Market had to shift up to the 500 blocks during construction. Teak benches, several drinking fountains, unique trash receptacles and bike racks enhance the sidewalks. A new kiosk was constructed at the southwest corner of Cota and State Street. Three new pads to accommodate the State of the Art sculptures were constructed. The fountain in the 600 Block of State Street was redesigned in keeping with the overall sandstone and brick plan. Sandstone medallions mark the mid-Block crosswalks. A gala grand opening was held in the afternoon on Saturday, June 8, 2002.

Phase III total costs were \$1,900,000.

Plaza De La Guerra Master plan

Realizing the community importance of Plaza de la Guerra, the Agency funded Phase III of the Master Plan process. Phase III includes the development of a master plan and its presentation to the City Council for incorporation into the City's General Plan and El Pueblo Viejo Guidelines. The original grant for \$35,000 was allocated in Fiscal Year 1999-2000. Phase I included the production of a high quality book that serves as the official record of all the historic papers, essays, architectural drawings, and historical photographs of Plaza de la Guerra. In October 1999, the Santa Barbara Trust for Historic Preservation was granted \$12,500 for the production of the book. The book "Plaza de la Guerra Reconsidered" has been published and circulated by the Santa Barbara Trust for Historic Preservation. In December 2000, the Agency Board granted the Downtown Organization \$12,500 to complete the second phase of the Plaza de la Guerra Master Plan. The purpose of Phase II was to gather input and identify issues about future improvement and use of the Plaza by holding professionally facilitated stakeholder meetings.

In early 2001, the Downtown Organization, working with Agency and City staff, convened a "Core Group" of key participants in and around Plaza de la Guerra to begin Phase II of the master plan process. The Core Group includes property owners of parcels adjacent to Plaza de la Guerra, and representatives from the Parks and Recreation Commission, Historic Landmarks Commission, the Santa Barbara News Press, the Downtown Organization, the Santa Barbara Conservancy and representatives from City Council, the City Administrator's Office, Parks and Recreation Department, and the Redevelopment Agency. This group has met seven (7) times in the last year in their efforts to design a process that is inclusive and considerate of various viewpoints and issues associated with upgrading Plaza de la Guerra. The Core Group has worked collaboratively toward the common goal of improving Plaza de la Guerra with simple, people-oriented improvements to the infrastructure and programming to help celebrate Plaza de la Guerra's role as a vital part of the community. In March 2002, the Downtown Organization received a grant for the final \$10,000 from this fund to initiate a General Plan Amendment for Plaza De La Guerra. The Master Plan will provide the City with a clear direction for improving the entire area including landscape, hardscape, and parking.

Opportunity Property Acquisition

The Agency had the opportunity to acquire four adjoining parcels in the waterfront area in April 2001. The Agency purchased these four parcels with the potential of future acquisition of three more parcels also owned by the Spumoni Holding Company. The City loaned the Agency \$2,875,000 for the purchase. The loan was paid off with a portion of the proceeds from the Series 2001A bond issued in July 2001.

Meanwhile, a comprehensive planning effort is underway to determine the ultimate use of the four original parcels totaling 2.4 acres at 125 Calle Cesar Chavez. A determination is being made whether to go forward with a proposed extension of Cacique Street, which would require a significant amount of the area of the present parcels or construct a multiuse path instead. Some of the uses suggested to date include the development of a community arts center - housing performing arts rehearsal space and art workspace, remote parking for the Cacique Street homeless shelter, an Urban Ecology Center and recycling facility, and various recreational and social service uses.

4200 Calle Real (St. Vincent's)

Mercy Charities Housing California (Mercy Charities), a State-wide nonprofit housing developer, proposes to build a 75-unit rental housing development for low- and very low- income families plus a 95-unit development for seniors on the site of the former St. Vincent's School, a 19-acre site in the unincorporated County near Highway 154 and Calle Real. The Agency provided Mercy Charities with an \$87,000 deferred predevelopment loan and Santa Barbara County has provided a \$25,000 predevelopment loan. The Agency and the State are considering providing additional predevelopment assistance later in the year. The annexation of the site into the City is pending. The design of the project is complete. The Agency has budgeted \$7 million for the project and the County has committed \$2.5 million. The majority of the remaining funding is expected to come from four percent tax credits and HUD 202 funds. If Mercy Charities is successful in securing the needed funding, construction will start in 2003.

OTHER INFORMATION

Component Unit Reporting

Under reporting requirements prescribed by generally accepted accounting principles adopted by the Governmental Accounting Standards Board (GASB), the Agency's results of operations are also reported in the City of Santa Barbara's comprehensive annual financial report. This treatment is due to the requirement that municipal organizations include in one report all operations controlled by the same governing body. Specific interpretation for redevelopment agencies requires their inclusion in the City's comprehensive annual financial report. No express or implied assumption of any of the agency's liabilities, either at present or in the future, is made by the inclusion of the Agency's financial results in the City's comprehensive annual financial report. The Agency remains separate for all legal purposes. Accordingly, the accompanying general purpose financial statements are issued as a separate component unit report of the Redevelopment Agency.

Internal Controls

The Agency's management is responsible for establishing and maintaining a system of internal controls designed to ensure that the Agency's assets are protected from loss, theft or misuse. The internal controls must also ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The Agency's system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognized that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe that the Agency's system of internal accounting controls adequately safeguards assets and provides reasonable assurance as to the proper recording of financial transactions. The Agency's internal controls are subject to periodic evaluation by the agency's management.

Independent Audit

The City requires an annual audit of the financial statements of the Agency by an independent certified public accountant. The Agency is in compliance with this requirement and the independent auditor's report has been included on page one of this report.

Acknowledgments

The preparation of this comprehensive annual financial report could not have been accomplished without the hard work and team effort of the City's Finance Department. Special recognition and thanks are due to the entire staff for their efficient and dedicated efforts.

Respectfully Submitted,



James L. Armstrong
Executive Director and Secretary



Robert D. Peirson
Agency Treasurer

**REDEVELOPMENT AGENCY
OF THE
CITY OF SANTA BARBARA**

Directory of Agency Officials

June 30, 2002

**Marty J. Blum
Chairperson**

**Dan B. Secord, M.D.
Member**

**H.P. Fairley
Member**

**Roger Horton
Member**

**Iya G. Falcone
Member**

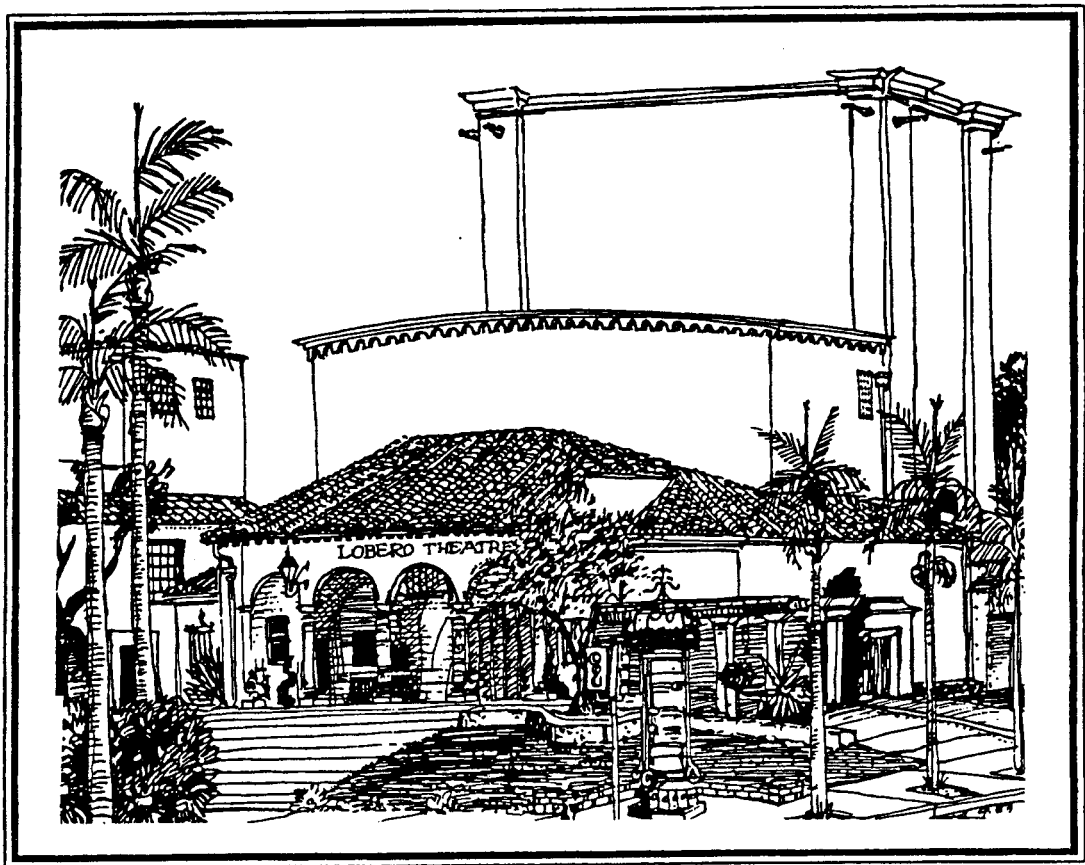
**Babatunde Folayemi
Member**

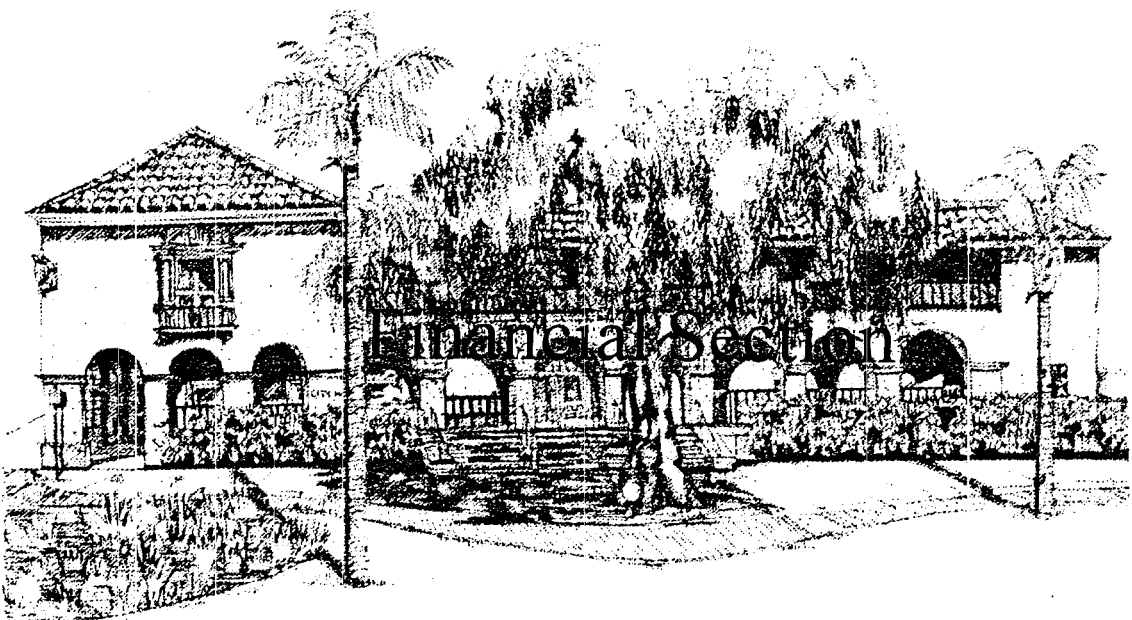
**Gregg A. Hart
Member**

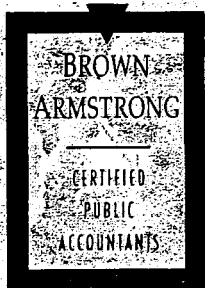
**James L. Armstrong
Executive Director and Secretary**

**Daniel J. Wallace
Agency Counsel**

**Robert D. Peirson
Agency Treasurer**







BROWN ARMSTRONG
PAULDEN McCOWN STARBUCK & KEETER
CERTIFIED PUBLIC ACCOUNTANTS

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Tel. 661-324-4971 Fax 661-324-4997
e-mail: barrinfo@barrcpa.com

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Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Harvey J. McCown, CPA
Steven R. Starbuck, CPA
Aileen K. Keeter, CPA

INDEPENDENT AUDITOR'S REPORT

Chris M. Thornburgh, CPA
Lynn R. Krausse, CPA, MST
Joan M. Anderson, CPA
Bradley M. Hankins, CPA
Eric H. Xin, CPA
Melinda A. McDaniels, CPA
Thomas M. Young, CPA
Amanda E. Wilson, CPA
Sharon Jones, CPA, MST
Rebecca Thomas, CPA
Rosalba Flores, CPA
Bryan J. Lewis, CPA
Debbie A. Rapp, CPA
Julie A. Auvil, CPA
Connie M. Perez, CPA

To the Board of Directors of
the Redevelopment Agency of the City of
Santa Barbara, California

We have audited the accompanying component unit financial statements of the Redevelopment Agency of the City of Santa Barbara (Agency), as of June 30, 2002, and for the year then ended. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

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

In our opinion, the component unit financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Redevelopment Agency of the City of Santa Barbara, as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed further in the notes to the component unit financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2002.

The information identified in the accompanying table of contents as *management's discussion and analysis and required supplementary information* 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplementary information listed in the table contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Agency. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the component unit financial statements taken as a whole. The scope of our audit did not include the statistical information listed in the table of contents and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2002 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Paulden H. McCown", with a stylized flourish at the end.

Bakersfield, California
September 4, 2002

***Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Year Ended June 30, 2002***

As management of the Redevelopment Agency of the City of Santa Barbara, the following is our narrative discussion and analysis of the financial activities of the Redevelopment Agency for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages ii through v of this report.

The Management's Discussion and analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2001-02) and the prior year (2000-01) is required to be presented in the MD&A. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. A comparative analysis will be available next year.

Financial Highlights

The assets of the Redevelopment Agency (Agency) exceeded its liabilities as of June 30, 2002 by \$73,142,145 (net assets). Of this amount, \$5,221,194 (unrestricted assets) may be used to meet the Agency's ongoing obligations to citizens and creditors.

The Agency's total net assets were increased by \$7,437,811 due primarily to the issuance of new debt in July 2001.

As of June 30, 2002, the Agency's governmental funds reported combined ending fund balances of \$78,915,527.

The Redevelopment Agency's total debt increased by \$38,855,000 due to the issuance of the Agency's Series 2001 Tax Allocation Bonds in July 2001.

Overview of Financial Statements

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

Government-wide Financial Statements

The *government wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

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 Agency's net assets changed during the fiscal year. All changes in net assets are reported as soon as 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 period.

Both of the government-wide financial statements reflect functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Agency include general government, HOME housing activities, debt service and capital projects.

The government-wide financial statements can be found on pages 10 - 11 of this report.

***Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Year Ended June 30, 2002***

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 are governmental in nature.

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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 fund balance sheet and the governmental fund 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 four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the special revenue fund and the capital projects funds, all of which are major funds.

The Agency adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for both funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12 and 13 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 27 of this report.

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 \$73,142,145 as of the fiscal year ended June 30, 2002.

By far the largest portion of the Agency's outstanding assets (42%) reflects its investment in capital assets (e.g., land, buildings, improvements), less related debt outstanding used to acquire those assets. The Agency acquired and facilitated the improvements of these capital assets to eliminate blight and increase availability of low to moderate housing in the community; consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

***Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Year Ended June 30, 2002***

This is the first year of reporting using the GASB 34 requirements so there are no prior year comparisons. However, the table below identifies the total assets, total liabilities and the total net assets as of June 30, 2002.

***REDEVELOPMENT AGENCY
OF THE CITY OF SANTA BARBARA
Net Assets***

	Total Governmental Activities 2002
Current and other assets	\$ 81,902,010
Capital assets	57,247,215
Total assets	139,149,225
Long-term liabilities outstanding	59,675,000
Other liabilities	6,332,080
Total liabilities	66,007,080
Net assets:	
Invested in capital assets, net of related debt	31,018,513
Restricted	36,902,438
Unrestricted	5,221,194
Total net assets	\$ 73,142,145

The balance of unrestricted net assets (\$5,221,194) may be used to meet the Agency's ongoing obligations to eliminate blight and improve low to moderate housing in the central city redevelopment project area.

At the end of the fiscal year, June 30, 2002, the Agency is able to report positive balances in all three categories of net assets of the primary government.

The Redevelopment Agency's revenues are largely generated from Property Tax Increment. The Redevelopment Agency uses 80% of these revenues to fund debt service on outstanding debt and redevelopment eligible capital improvement projects, and 20% of the revenues to fund affordable housing activities.

Governmental activities

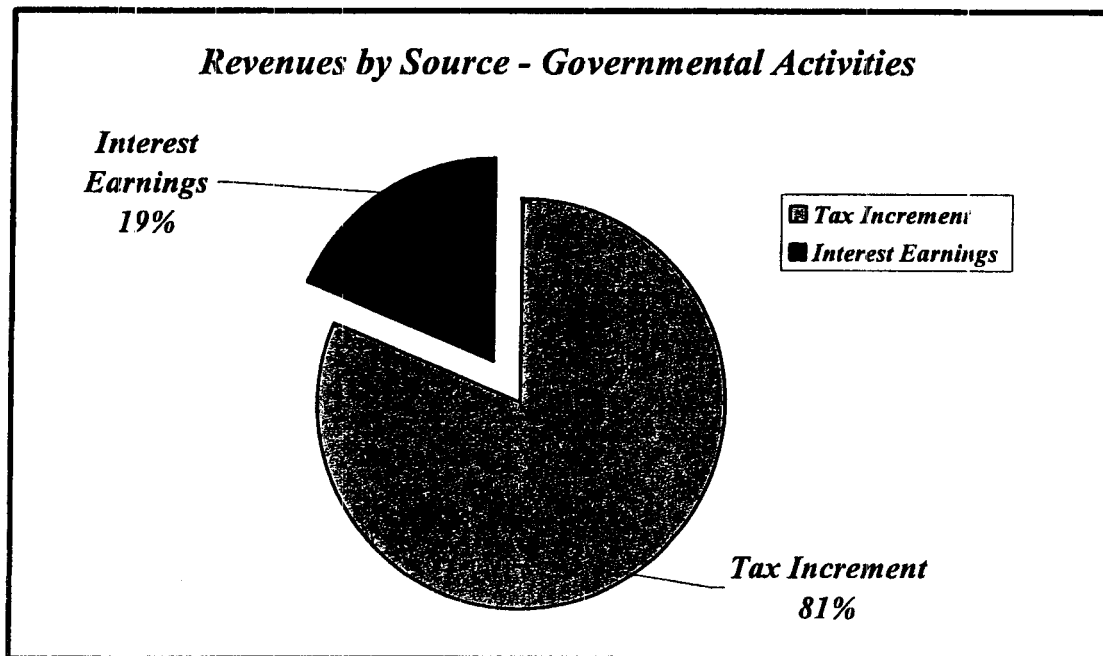
Governmental activities increased the Agency's net assets by \$7,441,837. A table summarizing the key elements of the increase follows:

**Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Year Ended June 30, 2002**

**REDEVELOPMENT AGENCY
OF THE CITY OF SANTA BARBARA
Net Assets**

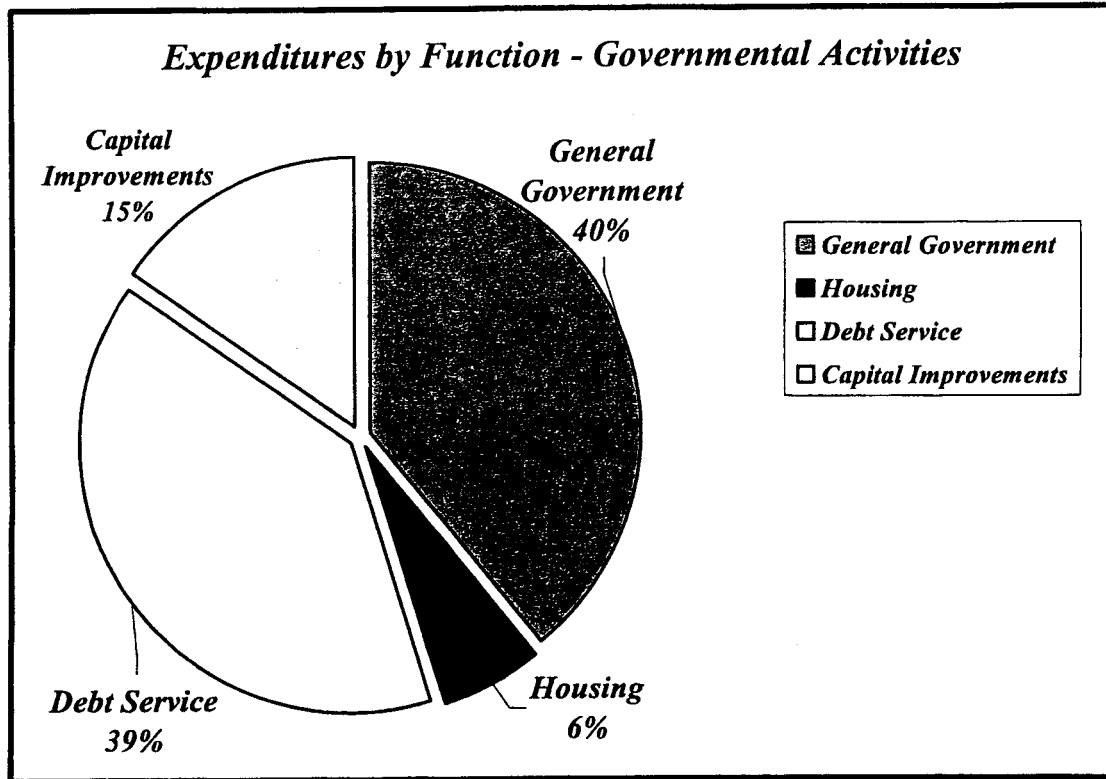
	<i>Governmental Activities</i>
	<u>2002</u>
General Revenues:	
Property Tax Increment	\$ 11,852,589
Unrestricted Interest Earnings	2,570,358
Other Revenue	3,700
Total Revenues	<u>14,426,647</u>
Expenses:	
General Government	2,338,693
Housing	375,624
Debt Service	3,352,395
Redevelopment Capital Improvements	918,098
Total Expenses	<u>6,984,810</u>
Increase in net assets before transfers	7,441,837
Transfers	(4,026)
Increase in net assets	7,437,811
Net Assets 6/30/2001	65,704,334
Net Assets 6/30/2002	<u>\$ 73,142,145</u>

Revenue is made up of property tax increment and unrestricted interest earnings as seen in the chart below:



The general government and debt service account for the majority of expenses as seen in the chart below:

*Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Year Ended June 30, 2002*



General Government Budgetary Highlights

Differences between the original budget and the final amended budget for general fund were relatively minor (a decrease of \$10,800 to overall appropriations). The decrease is made up of three components including an increase to appropriations for supplies and services of \$10,800 related to special projects and minor building improvements, for projects of \$305,000 related to Historic Preservation and acquisition of news-racks, other expenditures decreased by \$51,000, and transfers-in increased by \$264,000 due to the addition of the Historical Preservation Grants and finally, transfers out increased by \$10,000 to fund an increase to the State of the Art Gallery.

The difference between the original budget and the final amended budget for the special revenue fund is an increase of approximately \$22,600 to professional service contract appropriations that was required due to additional costs to manage housing loans.

Capital Asset and Debt Administration

Capital Assets

The Agency's investment in capital assets, as of June 30, 2002, amounts to \$57,247,215 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and construction in progress. Major capital asset events during the current fiscal year included the following:

- Parking lot 6 design and engineering is nearing completion; the Agency's share of the construction in progress costs has been \$1,336,666 as of June 30, 2002.
- Phase III of the sidewalk improvements on State Street were continued; construction in progress costs have been \$1,841,210 as of June 30, 2002.

Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Year Ended June 30, 2002

Redevelopment Agency
Capital Assets (net of depreciation)

	Governmental Activities
	2002
Land	38,871,689
Buildings	339,854
Improvements Other Than Buildings	14,743,681
Construction in Progress	3,291,991
Total	57,247,215

Also in this fiscal year the threshold for capital assets was increased in the building category to \$50,000 and improvements were increased to \$25,000. For this reason some of the improvements previously capitalized fell below the new threshold level and were eliminated to properly reflect the new policy.

Additional information on the Agency's capital assets can be found in note 5 on pages 23 and 24.

Long-term Debt

At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$63,660,000. Each of the debt issues are tax allocation bonds secured specifically by future tax increment revenue.

Redevelopment Agency Outstanding Debt
Tax Allocation Bonds

	Governmental Activities
	2002
1993 Series A Bonds	\$ 8,225,000
1995 Senior Series A Bonds	14,005,000
1995 Subordinate Series B Bonds	3,125,000
2001 Series A Bonds	38,305,000
Total	\$ 63,660,000

The Agency issued Series A 2001 Tax Allocation Bonds in the amount of \$38,855,000 during the current fiscal year.

The tax allocation bonds of the Agency are rated "Baa" by Moody's Investor Services and "BBB+" by Standard & Poor's.

Additional information on the Agency's long-term debt can be found in note 7 on pages 25 and 26.

Economic Factors and Next Year's Budget

The Redevelopment Agency's tax increment revenue is anticipated to again increase, as the real estate market remains strong. The Redevelopment Agency has estimated a conservative increase of 3% for the next fiscal year. This factor was considered in preparing the Agency's budget for the 2003 fiscal year.

***Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Year Ended June 30, 2002***

Request for Information

The financial report is designed to provide a general overview of the Redevelopment Agency's finances for all those with an interest. Questions concerning the information provided in this report or requests for additional financial information should be directed to:

City of Santa Barbara – Department of Finance
P.O. Box 1990
Santa Barbara, CA 93102-1990
ATTN: Mr. Ron Liechti
Phone: 805-564-5340

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
STATEMENT OF NET ASSETS
June 30, 2002

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 17,832,282
Loans Receivable	24,371,024
Accrued Interest Receivable	103,748
Due from other agencies	251,599
Inter-governmental receivables	531,400
Properties held for resale	433,952
Deferred charge - issuance costs	1,253,504
Deferred charge - discount	222,063
Restricted assets:	
Cash and investments with fiscal agent	36,902,439
Capital Assets (net of accumulated depreciation):	
Land	38,871,689
Buildings	339,854
Improvements other than buildings	14,743,681
Construction in progress	3,291,991
Total assets	<u>139,149,225</u>
LIABILITIES	
Accounts Payable	273,088
Accrued Interest Payable	897,952
Premium on issuance of debt	379,802
Loans payable	581,630
Deposits	214,608
Non-current liabilities	
Due within one year	3,985,000
Due in more than one year	59,675,000
Total liabilities	<u>66,007,080</u>
Invested in capital assets, net of related debt	31,018,513
Restricted for:	
Debt service	36,902,438
Unrestricted	5,221,194
NET ASSETS	<u><u>\$ 73,142,145</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2002

				Net (Expense) Revenue and
Functions/Programs	Expenses	Program Revenues		Changes in Net Assets
		Operating	Capital	Governmental
		Grants and Contributions	Grants and Contributions	
Primary government:				
Governmental activities:				
General Government	\$ 2,780,284	\$ 441,591	\$ -	\$ (2,338,693)
Housing	375,624	-	-	(375,624)
Debt Service	3,352,395	-	-	(3,352,395)
Redevelopment Capital	918,098	-	-	(918,098)
Total governmental activities	7,426,401	441,591	-	(6,984,810)
General Revenues:				
				11,852,589
				2,570,358
				3,700
Transfers				(4,026)
Total general revenues and transfers				14,422,621
Change in net assets				7,437,811
Net assets - beginning				65,704,334
Net assets - ending				\$ 73,142,145

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA

**Balance Sheet
Governmental Funds
June 30, 2002**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
<u>Assets and Other Debits</u>					
Cash and investments	\$ 2,971,217	\$ 8,987,118	\$ -	\$ 5,873,947	\$ 17,832,282
Loans receivable	1,135,862	23,235,162	-	-	24,371,024
Accrued interest receivable	60,133	43,615	-	-	103,748
Due from other agencies	-	-	-	251,599	251,599
Interfund receivable	1,359,097	-	2,112,575	-	3,471,672
Properties held for resale	433,952	-	-	-	433,952
Restricted assets:					
Cash and investments with fiscal agent	-	-	36,902,439	-	36,902,439
Total assets and other debits	\$ 5,960,261	\$32,265,895	\$39,015,014	\$ 6,125,546	\$83,366,716
<u>Liabilities, Fund Balances and Other Credits</u>					
Liabilities:					
Accounts payable	\$ 32,150	\$ 887	\$ -	\$ 240,051	\$ 273,088
Interfund payable	-	-	-	2,940,272	2,940,272
Deposits	154,108	60,500	-	-	214,608
Deferred Revenue	441,591	-	-	-	441,591
Loans payable	-	581,630	-	-	581,630
Total liabilities	627,849	643,017	-	3,180,323	4,451,189
Fund Balances					
Fund balances, reserved:					
Encumbrances	243,620	8,368	-	203,802	455,790
Properties held for resale	433,952	-	-	-	433,952
Debt service	-	-	39,015,014	-	39,015,014
Capital projects	-	-	-	2,489,822	2,489,822
Due from other agencies	-	-	-	251,599	251,599
Redevelopment activities	2,987,576	-	-	-	2,987,576
Non-current loans receivable	1,667,264	22,713,532	-	-	24,380,796
Low and moderate income housing	-	8,900,978	-	-	8,900,978
Total fund balances	5,332,412	31,622,878	39,015,014	2,945,223	78,915,527
Total liabilities and fund balances	\$ 5,960,261	\$32,265,895	\$39,015,014	\$ 6,125,546	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and, therefore are not reported in the funds	57,247,215
Long-term liabilities, including bonds payable, net of unamortized premiums and discounts, are not due and payable in the current period and therefore are not reported in the funds.	(63,817,740)
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.	(897,952)
Governmental funds report debt issuance costs as an expenditure when those costs are first incurred because they require the use of current financial resources. However, debt issuance costs must be included as a deferred charge in the government-wide financial statements.	1,253,504
Special assessment bonds will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore deferred in the funds.	441,591
Net assets of governmental activities	<u>\$ 73,142,145</u>

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
Fiscal year ended June 30, 2002

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Revenues:					
Incremental property taxes	\$ 9,482,071	\$ 2,370,518	\$ -	\$ -	\$ 11,852,589
Use of money and property	540,147	669,966	1,360,245	-	2,570,358
Other revenues	-	3,700	-	-	3,700
Total revenues	10,022,218	3,044,184	1,360,245		14,426,647
Expenditures:					
Current:					
Supplies and services	1,067,302	298,263	-	-	1,365,565
Projects	479,667	13,223	-	4,095,974	4,588,864
Other expenditures	11,384	64,138	-	-	75,522
Debt service:					
Principal	-	-	4,345,000	-	4,345,000
Interest	-	-	2,738,785	38,021	2,776,806
Total expenditures	1,558,353	375,624	7,083,785	4,133,995	13,151,757
Excess (deficiency) of revenues over (under) expenditures	8,463,865	2,668,560	(5,723,540)	(4,133,995)	1,274,890
Other financing sources (uses):					
Long-term debt issued	-	-	38,855,000	-	38,855,000
Bond issuance costs	-	-	(809,932)	-	(809,932)
Original Issue Discount	-	-	(235,125)	-	(235,125)
Operating transfers in	1,940,780	-	6,865,499	5,613,420	14,419,699
Operating transfers out	(9,569,792)	(132)	(4,853,801)	-	(14,423,725)
Total other financing sources (uses)	(7,629,012)	(132)	39,821,641	5,613,420	37,805,917
Net change in fund balances	834,853	2,668,428	34,098,101	1,479,425	39,080,807
Fund balances, beginning of fiscal year	4,497,559	28,954,450	4,916,913	1,465,798	39,834,720
Fund balances, end of fiscal year	\$ 5,332,412	\$ 31,622,878	\$ 39,015,014	\$ 2,945,223	\$ 78,915,527

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2002**

Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Net change in fund balances - total governmental funds (page 11)	\$ 39,080,807
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,955,945
The issuance of long-term debt (tax allocation bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net difference in the treatment of long-term debt and related items.	(37,892,330)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	4,345,000
Proceeds from the issuance of bonds is another financing source in the governmental funds, but is reported as an increase in long-term liabilities in the statement of net assets	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	441,591
Accrued interest for Tax Allocation Bonds. This is the net change in accrued interest for the current period	(493,202)
Change in net assets of governmental activities (page 11)	<u><u>7,437,811</u></u>

The notes to the financial statements are an integral part of this statement.



REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
For the Year Ended June 30, 2002

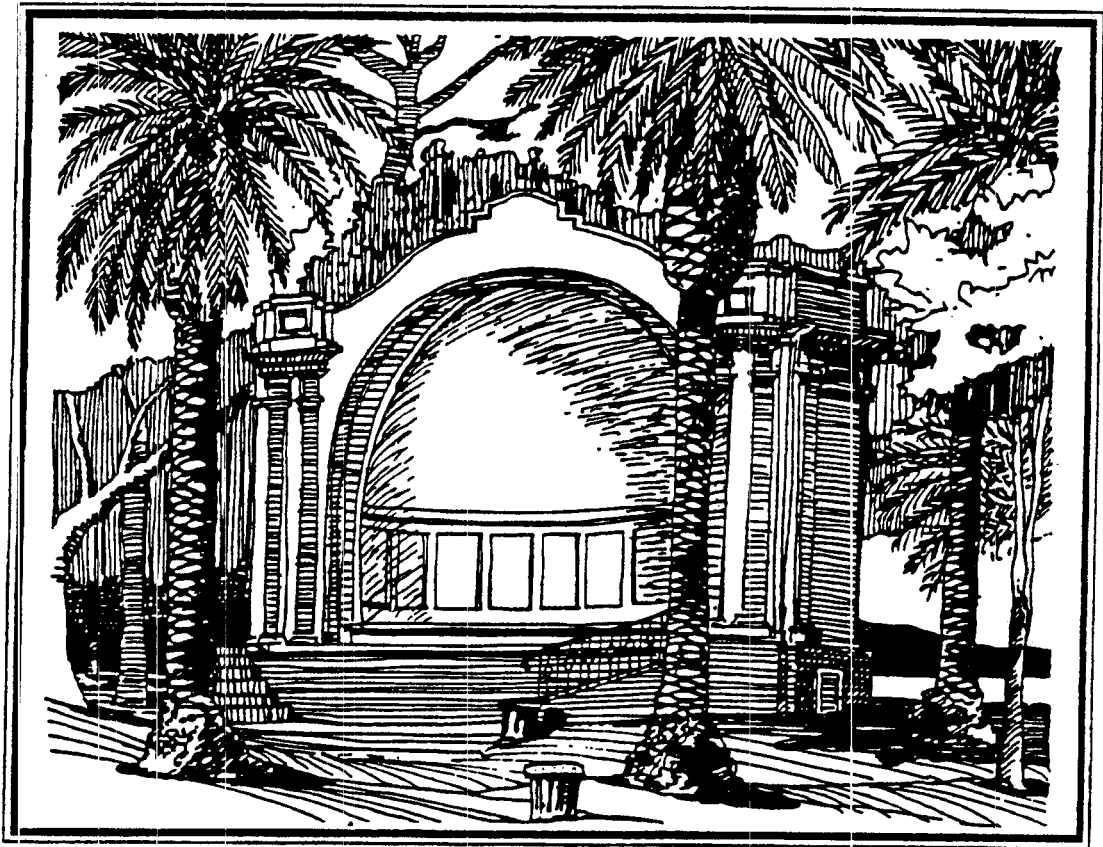
	General Fund			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
REVENUES				
Incremental property tax	\$ 9,100,000	\$ 9,100,000	\$ 9,482,071	\$ 382,071
Use of money and property	231,000	231,000	540,147	309,147
Other Revenue	-	-	-	-
Total Revenues	9,331,000	9,331,000	10,022,218	691,218
EXPENDITURES				
Current:				
Supplies and services	1,082,400	1,071,600	1,067,302	4,298
Projects	574,425	879,424	479,667	399,757
Other expenditures	182,744	131,744	11,384	120,360
Total Expenditures	1,839,569	2,082,768	1,558,353	524,415
Excess of revenues over expenditures	7,491,431	7,248,232	8,463,865	166,803
Other Financing Sources (Uses)				
Operating transfers in	-	264,000	1,940,780	1,676,780
Operating transfers out	(9,746,256)	(9,756,256)	(9,569,792)	186,464
Total other financing sources (uses)	(9,746,256)	(9,492,256)	(7,629,012)	1,863,244
Net change in fund balances	(2,254,825)	(2,244,024)	834,353	2,030,047
Fund balances, beginning of fiscal year	2,254,825	2,254,825	4,497,559	2,242,734
Fund balances, end of fiscal year	\$ -	\$ 10,801	\$ 5,332,412	\$ 4,272,781

(continued)

The notes to the financial statements are an integral part of this statement.

Special Revenue Housing Fund

Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
Original	Final		
\$ 2,275,000	\$ 2,275,000	\$ 2,370,518	\$ 95,518
600,000	600,000	669,966	69,966
-	-	3,700	3,700
<u>2,875,000</u>	<u>2,875,000</u>	<u>3,044,184</u>	<u>169,184</u>
379,500	401,902	298,263	103,639
5,000	5,000	13,223	(8,223)
16,000	16,196	64,138	(47,942)
<u>400,500</u>	<u>423,098</u>	<u>375,624</u>	<u>47,474</u>
2,474,500	2,451,902	2,668,560	(121,710)
-	-	-	-
-	-	(132)	(132)
-	-	(132)	(132)
2,474,500	2,451,902	2,668,428	(121,842)
<u>28,954,450</u>	<u>28,954,450</u>	<u>28,954,450</u>	<u>-</u>
<u>\$ 31,428,950</u>	<u>\$ 31,406,352</u>	<u>\$ 31,622,878</u>	<u>\$ (121,842)</u>



REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Redevelopment Agency of the City of Santa Barbara (Agency) conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the Agency's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

The Agency was created by the City Council of the City of Santa Barbara (City) by Ordinance 32-7, adopted March 5, 1968. Ordinance Number 3906, issued on May 24, 1977, declared the City Council to be the Agency's governing body.

The Agency was established pursuant to Section 33200 of the State of California Health and Safety Code. As such, the Agency acts as a legal entity, separate and distinct from the City, even though the City Council of the City serves as the Agency's governing board.

The actions of the Agency are binding. All business, including the issuance of long-term debt, is routinely transacted in the Agency's name by its appointed representatives. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition.

The Redevelopment Agency does not have any employees. The City provides all support staff and performs all administrative functions for the Agency under the terms of a written agreement with the Agency.

Under reporting requirements prescribed by generally accepted accounting principles adopted by the Governmental Accounting Standards Board (GASB), the Agency's financial activity is also reported in the City of Santa Barbara's comprehensive annual financial report. This treatment is due to the requirement that municipal organizations include in one report all operations significantly controlled by the same governing body. Specific interpretation for redevelopment agencies requires their inclusion in the City's comprehensive annual financial report. No express or implied assumption of any of the Agency's liabilities, either at present or in the future, is made by the inclusion of the Agency's financial results in the City's annual financial report. The Agency remains separate for all legal purposes. Accordingly, the accompanying combined financial statements are issued as a separate report of the Redevelopment Agency.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report on the Agency as a whole. The statement of activities demonstrates the degree to which the direct expenses of the Agency's functions are offset by program revenues. Direct expenses are those that are clearly identifiable with the Agency's function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Agency's programs. Other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for the governmental funds of the Agency (balance sheet and the statement of revenues, expenditures and changes in fund balance).

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

Government-wide financial statements

The statement of net assets and the statement of activities are prepared 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 the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA

Notes to the Basic Financial Statements

June 30, 2002

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus 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 with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest income associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

The Agency reports the following major governmental funds:

General Fund – Used to account for all financial resources of the Agency, except for those required for debt service and housing activity.

Special Revenue Fund – The Agency has one special revenue fund, the Housing Fund, which is used to account for the financial resources available for low and moderate-income loan and grant programs.

Capital Projects Fund – The Capital Projects Fund is used to account for the proceeds of the Agency's 1993, 1995 and 2001 Tax Allocation Bonds which are being used to fund major capital improvement projects of the Agency.

Debt Service Fund – The Debt Service fund is used to account for the accumulation of resources for and the payment of, general long-term debt, including principal, interest and related costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

D. Budgetary Controls

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

- " Prior to May 1, the Executive Director submits to the Agency Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- " Public hearings are conducted to obtain taxpayer comments.
- " Prior to June 30, the budget is legally enacted through the passage of an ordinance.
- " Expenditures may not legally exceed appropriations at the fund level.

Formal operating budget integration is employed as a management control device during the year for the General Fund and Special Revenue Fund. Formal budgetary integration is not employed for the Agency's Debt Service Fund because effective budgetary control is alternatively achieved through the provisions of the Agency's bond indentures. While budgets are prepared for the Agency's capital projects fund, capital projects generally span more than one fiscal year and are effectively controlled at the project level.

Budgeted amounts, as presented in the accompanying financial statements, are as originally adopted in June 2001, or as amended by the Agency Board. Individual amendments were not material in relation to the original appropriations.

Budget appropriations lapse at year-end with the exception of special projects, capital programs, and funds encumbered by contract or purchase order.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA

Notes to the Basic Financial Statements

June 30, 2002

formal budgetary integration in the General Fund and Housing Fund. Encumbrances outstanding at year-end are reported as a reservation of fund balance since they do not represent expenditures or liabilities.

E. Investments

Investments are reported in the accompanying basic financial statements as cash and investments. The Agency has developed a formal investment policy that exceeds the minimum requirements established by the State of California. The Agency believes that it has adhered to established policies for all investment activities. All investments are stated at fair value.

F. Incremental Property Tax

Incremental property taxes are considered as revenues by the Agency when they become both measurable and available for financing the Agency's redevelopment activities during the year.

Incremental property tax revenues represent property taxes collected from the excess of taxes levied and collected each year on a redevelopment project over that amount which would have been levied and collected on the base year property tax assessment. A property tax base year is determined to be the year prior to the establishment of a redevelopment project area.

Property taxes are levied on March 1, are due on November 1 and March 1, and become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is November 1.

G. Properties Held for Resale

Properties held for resale by the Agency are recorded in the Agency's General Fund at the lower of cost or estimated net realizable value. Realizable value is determined by an agreed-upon sale price with a developer. Prior to the establishment of such a development agreement, the properties are maintained at cost. Capitalized costs include all moneys expended in the redevelopment process that can be properly attributable to properties to be resold to developers.

H. Self-Insurance

For purposes of general liability, the Agency is self-insured. As of June 30, 2002, management is not aware of any outstanding liabilities, which would require accrual.

I. Low and Moderate Income Housing

In accordance with state law, the Agency is required to set aside twenty percent (20%) of the taxes allocated to it for low and moderate income housing programs. Historically, the Agency has complied with this requirement. These resources are accounted for in a special revenue fund.

J. Capital Assets

Capital assets, which include, land, buildings, improvements other than buildings and construction in progress are reported in the government-wide financial statements. The Agency defines capital assets as assets with an initial, individual cost of more than \$25,000 for building improvements and other improvements and more than \$50,000 for buildings and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. assets, except land and construction in progress, of the Agency are depreciated using the straight-line method:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than Buildings	25-50

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Agency's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." Another element is due to the accounting for capital assets in the government-wide statement of net assets and not reporting them in the government fund balance sheet. The details of the \$3,989,309 difference are listed below:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 57,247,215
Long-term liabilities, including bonds payable, net of unamortized premiums and discounts, are not due and payable in the current period and therefore are not reported in the funds	(63,817,740)
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.	(897,952)
Governmental funds report debt issuance costs as an expenditure when those costs are first incurred because they require the use of current financial resources. However, debt issuance costs must be included as a deferred charge in the government-wide financial statements	1,253,504
Special assessment bonds will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore deferred in the funds.	<u>441,591</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ (5,773,382)</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

assets are allocated over their estimated useful lives and reported as depreciation expense." The details of the \$1,955,945 difference is as follows:

Capital outlay	\$ 3,177,876
Depreciation expense	(1,221,931)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 1,955,945</u>

Another element of that reconciliation states "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of the difference areas follows:

Debt issued or incurred:	
Issuance of tax allocation bonds	\$(38,855,000)
Principal repayments:	
Tax allocation bonds 1993	915,000
Tax allocation bonds 1995	2,880,000
Tax allocation bonds 2001	<u>550,000</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$(34,510,000)</u>

Another element of that reconciliation states that governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$2,423,745 difference are as follows:

Cost of issue on new tax allocation bonds	\$ 809,932
Premium Series A 2001 Bonds	235,125
Cost of issue and discount on 1995 tax allocation bonds	(132,625)
Cost of issue 1993 tax allocation bonds	50,238
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	441,591
Accrued interest for Tax Allocation Bonds. This is the net change in accrued interest for the current period	(493,202)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 911,059</u>

NOTE 3. DEPOSITS AND INVESTMENTS

The Agency's cash and investments are managed by the City Treasurer. All of the Agency's cash, except for its investments in the State of California Local Agency Investment fund (LAIF) and cash and investments with fiscal agents, is combined with the City's overall invested pooled cash in order to maximize return. Interest earned on pooled investments is allocated monthly to the various Agency funds based on the respective fund's average monthly cash balance. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

The following summarizes total cash and investments of the Agency

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA

Notes to the Basic Financial Statements

June 30, 2002

LAIF	\$ 16,044,482
Equity Interest in City Pool	<u>1,787,800</u>
Total	<u>\$ 17,832,282</u>
Cash and Investments with fiscal agents	<u>\$ 36,902,439</u>

A. Deposits

The California Government Code requires California banks and savings and loans to secure public deposits by pledging government securities as collateral. The market value of the pledged securities must equal 110% of the Agency's deposits. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes equal to 150% of the deposits. The City may waive collateral requirements for deposits that are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

B. Investments

Under the terms of the City's investment policies, which have also been adopted by the Agency, the Agency is authorized, in accordance with Section 53601 of the California Government Code, to invest in the following instruments:

- Bonds issued by the City
- Securities issued or guaranteed by the Federal Government or its agencies
- Medium term notes of a maximum of five years maturity issued by corporations or depository institutions organized and operating within the United States
- Repurchase and reverse repurchase agreements of any securities authorized by the California Government Code
- Bankers' acceptances eligible for purchase by the Federal Reserve System
- Commercial paper, rated A-1/P-1
- Negotiable certificates of deposit issued by a nationally chartered bank, savings association, or credit union
- Certificates of deposit issued by commercial banks and savings and loan associations that are collateralized in accordance with the California Government Code
- State of California Local Agency Investment Fund (LAIF)
- U.S. Government money market mutual funds
- Demand deposit accounts

The City's investment policy also establishes a maximum term of 5 years at the time an investment is purchased, with the average maturity of the portfolio not to exceed two years. The Agency's investments comply with the established policy.

At no time during the fiscal year did the Agency borrow funds through the use of reverse repurchase agreements although such transactions are authorized by the City's investment policy.

Except for the Agency's investment in the State of California Local Agency Investment Fund (LAIF), all of the Agency's cash is combined with the City's pooled investments and, therefore, does not represent specific identifiable investments.

The Agency's investment in LAIF and investments with fiscal agents are summarized and categorized below. These categories, intended to indicate the level of custodial risk assumed by the Agency in its investments, are defined as follows:

Category 1 - Investments that are insured or registered or for which the securities are held by the Agency or its agent in the Agency's name

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

Category 2 - Uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Agency's name

Category 3 - Uninsured and unregistered investments for which the securities are held by the counter party trust department or agent, but not specifically in the Agency's name

Not subject to categorization - includes investments, defined by GASB Statement No. 3, such as mutual funds or government investment pools, which are not evidenced by securities that exist in physical or book entry form

The management of the State of California Pooled Money Investment Account (PMIA), of which the Local Agency Investment Fund (LAIF) is a component, has indicated to the Agency that as of June 30, 2002 the carrying amount of the pool was \$47,719,552,487 and the estimated fair value of the pool (including accrued interest) was \$48,082,558,174. The Agency's proportionate share of that market value is \$16,044,482. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes, totaling \$970,548,000, and asset backed securities totaling \$830,572,000. LAIF's (and the Agency's) exposure to risk (credit, market or legal) is not currently available.

C. Funds with Fiscal Agent

The Agency has moneys held by trustees or fiscal agents pledged to the payment or security of certain bonds or projects funded by the bond proceeds. Cash and investments with fiscal agent are held by separate agreement with each fiscal agent. The California Government Code provides that these moneys, in the absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. In no instance have additional types of investments not permitted by the Agency's general investment policy been authorized.

NOTE 4. PROPERTIES HELD FOR RESALE

A summary of changes in properties held for resale follows:

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Properties held for resale	\$ 433,952	-	-	\$ 433,952

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

	Beginning Balance July 1, 2001	Increases	Decreases	Ending Balance June 30, 2002
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 38,871,689	\$ -	\$ -	\$ 38,871,689
Construction in progress	114,115	3,177,876	-	\$ 3,291,991
Total capital assets, not being depreciated	38,985,804	3,177,876	-	42,163,680
Capital assets being depreciated:				
Building	357,741	-	-	\$ 357,741
Improvements other than buildings	24,802,621	-	-	\$ 24,802,621
Total capital assets being depreciated	25,160,362	-	-	25,160,362
Less accumulated depreciation for:				
Buildings	(8,944)	(8,943)	-	\$ (17,887)
Improvements other than buildings	(8,919,905)	(1,139,035)	-	\$(10,058,940)
Total accumulated depreciation	(8,928,849)	(1,147,978)	-	(10,076,827)
Total capital assets, being depreciated, net	16,231,513	(1,147,978)	-	15,083,535
Governmental activities capital assets, net	\$ 55,217,317	\$ 2,029,898	\$ -	\$ 57,247,215

Depreciation expense of \$1,147,978 was charged to the general fund of the Agency.

Certain beginning balances of capital assets in the above table have been restated to reflect the first-time implementation of GASB 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Agency has active construction projects as of June 30, 2002. The projects include construction of public restrooms, design, engineering and construction of parking lots, sidewalk design and construction and restoration of a public event center. At year-end the Agency's commitments with contractors are as follows:

<u>Project</u>	<u>Spent To Date</u>
State Street Restroom	\$ 47,892
Railroad Station South Parking Lot	66,223
State Street Sidewalk Design & Construction	1,841,210
Parking Lot 6	1,336,666
Total	<u>\$ 3,291,991</u>

Special assessment bonds that will be repaid by the benefiting property owners are financing the special assessment portion of the commitment for State Street sidewalk improvements. Tax allocation bonds issued by the Agency are funding the public-purpose portion of this same project. Primarily tax allocation bonds and the Agency's incremental property tax revenue fund the remaining projects.

NOTE 6. INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of inter-fund and primary government/component unit balances as of June 30, 2002, is as follows:

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

The composition of inter-fund and primary government/component unit balances as of June 30, 2002, is as follows:

Transfer Out:	Transfer In:				
	Agency General Fund	Agency Capital Projects	Agency Debt Service	City General Fund	Total
Agency General Fund	\$ -	\$ 2,700,400	\$ 6,865,500	\$ 3,892	\$ 9,569,792
Housing Fund	-	-	-	132	132
Debt Service Fund	1,940,780	2,913,021	-	-	4,853,801
Total	<u>\$ 1,940,780</u>	<u>\$ 5,613,421</u>	<u>\$ 6,865,500</u>	<u>\$ 4,024</u>	<u>\$ 14,423,725</u>

In the fund financial statements, total transfers in of \$14,519,699 are less than total transfers out of \$14,423,725 leaving a difference of \$4,026. The difference is because of the treatment of transfers between the Agency Funds (blended component unit) and the general government of the City of Santa Barbara.

On the Statement of Activities Inter-fund transfers have been eliminated. The inter fund-transfers result from transfers from the Agency general fund to the capital projects fund and debt service fund related to debt service payments on behalf of the Agency. Inter-fund transfers from the debt service fund (2001 tax allocation bonds) to the Agency general fund and capital projects fund are to repay those funds with bond proceeds for cash advanced in the prior year to purchase strategic real property for the Agency that may not have been available in the new fiscal year.

The Inter-fund Receivable on the Statement of Net Assets in the amount of \$531,400 is due from the City of Santa Barbara. In November 1998, the Redevelopment Agency authorized an advance to the City's General Fund for the purpose of funding capital costs for the State Street Sidewalk Improvement Project. This advance is being repaid over a period of five years with funds generated from an assessment district.

NOTE 7. LONG-TERM DEBT

The Agency issues tax allocation bonds to provide funds for the acquisition of land or property and restoration or rehabilitation construction of existing buildings or improvements to eliminate blight in central downtown Santa Barbara. The Agency pledges tax increment revenues to pay debt service of the tax allocation bonds. During the year the Agency issued \$38,855,000 of new tax allocation bonds

Tax allocation bonds outstanding at year-end is as follows:

	Interest Rate %	Date of Issue	Maturity	Amount of Original Issue	Outstanding Balance June 30, 2002
Tax allocation bonds:					
1993 Series A	5.1 - 8.5%	02/01/93	02/01/07	\$ 14,605,000	\$ 8,225,000
1995 Senior Series A	3.65 - 6.00%	12/01/95	03/01/08	28,170,000	14,005,000
1995 Subordinate Series B	4.375 - 6.35%	12/01/95	03/01/07	6,845,000	3,125,000
2001 Series A	4.125 - 5.00%	07/25/01	03/01/19	38,855,000	38,305,000
Total				<u>\$ 88,475,000</u>	<u>\$ 63,660,000</u>

Long-term liability activity for the year ended June 30, 2002 was as follows:

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

	Balance 07/01/01	Additions	Retirements	Balance 06/30/02	Due Within One Year
Tax allocation bonds:					
1993 Series A	\$ 9,140,000	\$ -	\$ 915,000	\$ 8,225,000	\$ 985,000
1995 Senior Series A	16,335,000	-	2,330,000	14,005,000	2,420,000
1995 Subordinate Series B	3,675,000	-	550,000	3,125,000	580,000
2001 Series A	-	38,855,000	550,000	38,305,000	-
Total	\$ 29,150,000	\$ 38,855,000	\$ 4,345,000	\$ 63,660,000	\$ 3,985,000

Annual debt service requirements to maturity for tax allocation bonds are as follows:

	1993 Tax Allocation	1995 Senior Series A	1995 Subordinate Series B	2001 Tax Allocation	Total
2003	1,497,123	3,195,713	766,775	1,764,854	7,224,465
2004	1,523,022	3,168,788	772,700	1,764,854	7,229,364
2005	2,302,753	2,389,800	720,500	1,764,854	7,177,907
2006	2,323,065	2,369,100	719,200	1,764,854	7,176,219
2007	2,338,600	2,353,000	720,800	1,764,854	7,177,254
2008-2012	-	3,460,900	-	19,951,419	23,412,319
2013-2017	-	-	-	22,769,615	22,769,615
2018-2019	-	-	-	9,115,750	9,115,750
TOTAL	9,984,563	16,937,301	3,699,975	60,661,054	91,282,893

The Agency has complied with all significant bond covenants.

NOTE 8. LOANS RECEIVABLE

Loans receivable in the governmental funds, totaling \$24,371,024 at June 30, 2002, consist of (1) housing rehabilitation loans, in the amount of \$23,235,162 with interest ranging from 3% to 8% and maturities up to 20 years (2) a two-year bridge loan to The Coalition to Provide Shelter & Support to Santa Barbara Homeless in the amount of \$1,112,035 and (3) another loan of \$23,827 to Bernard J. Borderre with interest at 8.5%.

NOTE 9. DUE FROM OTHER AGENCIES

On December 6, 1994, the County of Orange (Orange County) and the Orange County Investment Pools (Pool) filed petitions for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code. The Agency was one of over 180 participants in the Pool (Pool Participants). As of December 6, 1994, the Agency's Pool investment principal balance was \$11,780,015 according to the records of Orange County.

A Comprehensive Settlement Agreement (Settlement) for the Pool was offered to Pool Participants in March of 1995. Pool Participants were offered a choice of two settlement options (Option A or Option B). In April 1995, the City Council acting as the Agency Board selected Option B which provided for the return of approximately \$9.7 million and the reservation of all rights to recover the remaining balance from all potential sources, including Orange County and third parties.

In September of 1995, the Agency, along with other Option B agencies, filed a complaint for damages against Merrill Lynch. In October of 1995, the Agency along with other Option B agencies, filed a complaint for damages against Orange County. The complaint for damages against Orange County was settled for a cash distribution of \$417,111 received in fiscal year.

1996-97, and warrants amounting to \$503,200, payable in ten equal annual installments plus interest at the rate of 6.25% on the unpaid balance. The first installment was received in July 1997.

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Notes to the Basic Financial Statements
June 30, 2002

As a result of the settlement with Orange County, the Agency, along with the other Option B agencies, also participates in certain litigation entitlements related to the County's litigation against third parties. This amount is classified on the balance sheet as "due from other agencies." While collection of this receivable cannot presently be determined, it is the opinion of City management on behalf of the Agency, that the effect of non-recovery of the claims would not materially affect the financial position of the Agency.

Total "due from other agencies" at June 30, 2002 is summarized as follows:

Warrants receivable	\$ 231,974
Accrued interest receivable	<u>19,625</u>
Total due from other agencies	<u><u>\$ 251,599</u></u>

NOTE 10. LITIGATION

The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. Agency management believes, based upon consultation with the Agency's Counsel, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency.

NOTE 11. OTHER REQUIRED DISCLOSURES – CERTIFICATES OF PARTICIPATION

In 1984, the Redevelopment Agency of the City of Santa Barbara issued certificates of participation in order to finance the acquisition and construction of certain harbor improvements to the Santa Barbara Harbor. These improvements were leased to the City of Santa Barbara for the benefit of the Tidelands Trust Fund, which is now known as the Waterfront Fund, an enterprise fund of the City. These certificates were refunded in 1986, and later refunded in 1992 through the issuance of the 1992 \$19,745,000 Certificates of Participation. Pursuant to an agreement dated May 1, 1992, the rights to the lease payments from the Waterfront Fund have been assigned to the Redevelopment Agency, a trustee for the benefit of the registered owners of the Certificates. Accordingly, the liability associated with the obligations under the Certificates of Participation have been recorded within the Waterfront Fund and are therefore not included as a liability of the Redevelopment Agency. As of June 30, 2002 the Certificates of Participation have an outstanding balance of \$17,605,000.

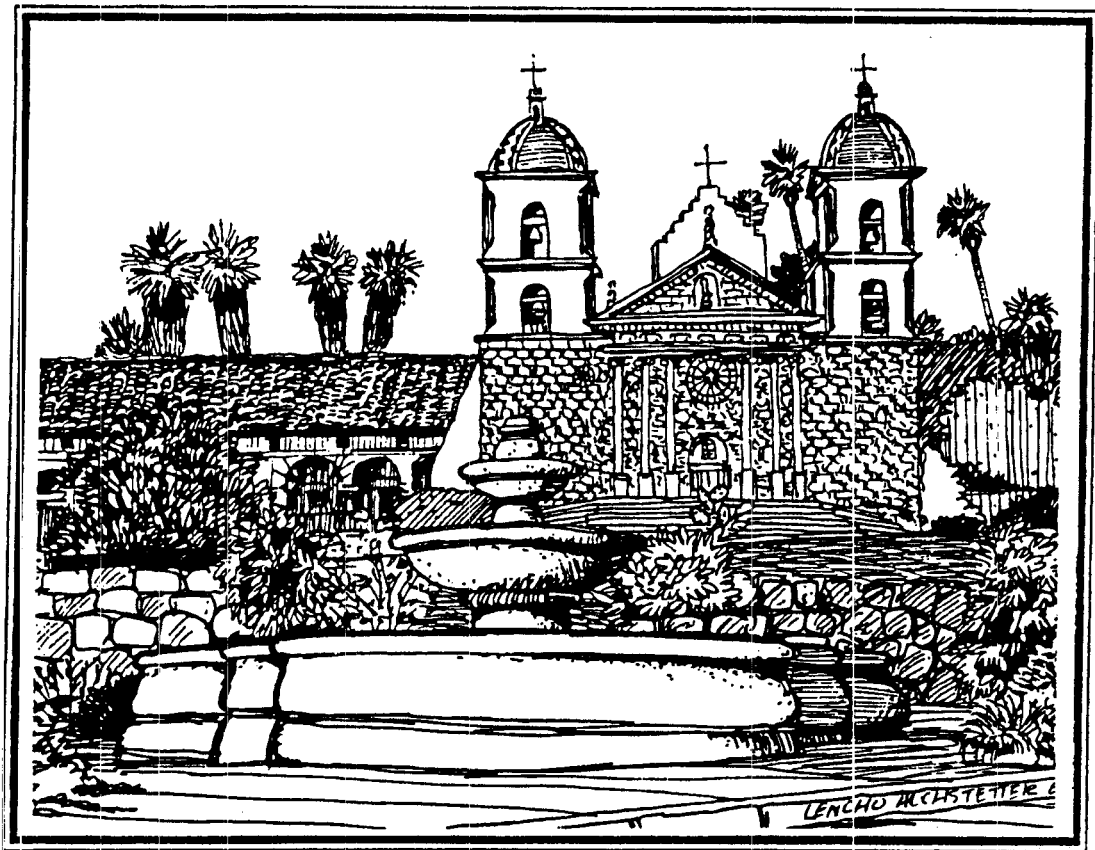




Table 1

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
General Expenditures By Function
Last Ten Fiscal Years
(Unaudited)

<u>Year ended June 30</u>	<u>Supplies and services</u>	<u>Projects</u>	<u>Principal</u>	<u>Interest</u>	<u>Other</u>	<u>Total</u>
1993	\$ 847,138	\$ 1,751,083	\$ 1,480,000	\$ 2,723,160	\$ -	\$ 6,801,381
1994	844,715	904,666	2,060,000	3,602,212	392,171 *	7,803,764
1995	570,544	5,235,716	2,270,000	3,379,742	392,265 *	11,848,267
1996	652,085	1,490,561	3,115,000	2,373,841	700,449 **	8,331,936
1997	967,789	4,662,105	2,970,000	2,499,501	1,182,002 ***	12,281,397
1998	838,540	4,709,516	3,085,000	2,373,706	88,882	11,095,644
1999	880,215	5,785,578	3,225,000	2,235,642	240,489	12,366,924
2000	889,276	2,213,070	3,410,000	2,057,685	27,663	8,597,694
2001	928,917	6,937,224	3,600,000	1,867,900	16,327	13,350,368
2002	1,365,565	4,588,864	4,345,000	2,776,806	75,522	13,151,757

* Represents amounts paid to the Educational Revenue Augmentation Fund.

** Represents amounts paid as cost of issuance.

*** \$1,109,521 represents forgiveness of loans receivable.

Source: City of Santa Barbara Finance Department

Table 2

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
General Revenues By Source
Last Ten Fiscal Years
(Unaudited)

<u>Year ended June 30</u>	<u>Tax Increment</u>	<u>Use of Money and Property</u>	<u>Development Fees</u>	<u>Other</u>	<u>Total</u>
1993	\$ 7,833,881	\$ 1,168,515	\$ -	\$ 173,554	\$ 9,175,950
1994	7,770,191	1,598,241	-	2,306,109	11,674,541
1995	7,627,615	1,178,957	-	3,536,859	12,343,431
1996	7,601,512	1,066,972	-	321,830	8,990,314
1997	7,744,675	1,606,952	-	83,246	9,434,873
1998	8,039,594	1,542,905	-	214,480	9,796,979
1999	9,234,958	1,273,690	-	1,491,456	12,000,104
2000	9,624,123	1,406,226	-	1,411,869	12,442,218
2001	11,183,224	1,990,859	-	16,699	13,190,782
2002	11,852,589	2,570,358	-	3,700	14,426,647

Source: City of Santa Barbara Finance Department

Table 3

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Property Tax Rates - All Overlapping Governments
per \$100 of assessed value
Last Ten Fiscal Years
(Unaudited)

<u>Year ended June 30</u>	<u>County</u>	<u>City</u>	<u>Schools</u>	<u>State Water Project</u>	<u>Total</u>
1993	1.00000	-	0.00381	-	1.00381
1994	1.00000	-	0.00156	-	1.00156
1995	1.00000	-	0.00102	-	1.00102
1996	1.00000	-	0.00761	-	1.00761
1997	1.00000	-	0.01223	-	1.01223
1998	1.00000	-	0.00420	-	1.00420
1999	1.00000	-	0.03480	-	1.03480
2000	1.00000	-	0.02950	-	1.02950
2001	1.00000	-	0.02670	-	1.02670
2002	1.00000	-	0.01602	-	1.01602

Source: County of Santa Barbara: Tax Rates and Assessed Valuations
Assesor's Role

Table 4

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Assessed Values - Tax Levy
Last Ten Fiscal Years
(Unaudited)

Year ended June 30	Secured					Tax levy
		Base year	Assessed value	Increment assessed value	Tax rate	
1993	CCRP	\$ 96,895,229	\$ 740,919,224	\$ 644,023,995	1.00381	\$ 6,464,777
	Unitary Allocation	-	-	-		283,422
		<u>96,895,229</u>	<u>740,919,224</u>	<u>644,023,995</u>		<u>6,748,199</u>
1994	CCRP	96,895,229	750,616,162	653,720,933	1.00156	6,547,407
	Unitary Allocation	-	-	-		283,301
		<u>96,895,229</u>	<u>750,616,162</u>	<u>653,720,933</u>		<u>6,830,708</u>
1995	CCRP	96,895,229	732,903,848	636,008,619	1.00102	6,366,574
	Unitary Allocation	-	-	-		249,712
		<u>96,895,229</u>	<u>732,903,848</u>	<u>636,008,619</u>		<u>6,616,286</u>
1996	CCRP	96,895,229	727,262,303	630,367,074	1.00761	6,351,643
	Unitary Allocation	-	-	-		-
		<u>96,895,229</u>	<u>727,262,303</u>	<u>630,367,074</u>		<u>6,351,643</u>
1997	CCRP	96,895,229	737,801,977	640,906,748	1.01223	6,415,732
	Unitary Allocation	-	-	-		-
		<u>96,895,229</u>	<u>737,801,977</u>	<u>640,906,748</u>		<u>6,415,732</u>
1998	CCRP	96,895,229	745,437,239	648,542,010	1.00420	6,491,257
	Unitary Allocation	-	-	-		245,928
		<u>96,895,229</u>	<u>745,437,239</u>	<u>648,542,010</u>		<u>6,737,185</u>
1999	CCRP	96,895,229	839,243,063	742,347,834	1.03480	7,423,478
	Unitary Allocation	-	-	-		244,642
		<u>96,895,229</u>	<u>839,243,063</u>	<u>742,347,834</u>		<u>7,668,120</u>
2000	CCRP	96,895,229	881,000,563	784,105,334	1.02950	7,842,139
	Unitary Allocation	-	-	-		249,239
		<u>96,895,229</u>	<u>881,000,563</u>	<u>784,105,334</u>		<u>8,091,378</u>
2001	CCRP	96,895,229	985,145,500	888,250,271	1.02670	8,882,504
	Unitary Allocation	-	-	-		257,735
		<u>96,895,229</u>	<u>985,145,500</u>	<u>888,250,271</u>		<u>9,140,239</u>
2002	CCRP	96,895,229	1,052,767,254	955,872,025	1.01602	9,559,877
	Unitary Allocation	-	-	-		282,199
		<u>96,895,229</u>	<u>1,052,767,254</u>	<u>955,872,025</u>		<u>9,842,076</u>

Note (1): The County remits the full amount of the levy to the Agency. Delinquencies, therefore are not a factor.

Unsecured					
Base year	Assessed value	Increment assessed value	Tax rate	Tax levy	Total Tax Levy
\$ 29,620,144	\$ 136,110,443	\$ 106,490,299	1.00674	\$ 1,072,080	\$ 7,536,857
-	-	-	-	-	283,422
<u>29,620,144</u>	<u>136,110,443</u>	<u>106,490,299</u>	-	<u>1,072,080</u>	<u>7,820,279</u>
29,620,144	141,448,396	111,828,252	1.00156	1,120,027	7,667,434
-	-	-	-	-	283,301
<u>29,620,144</u>	<u>141,448,396</u>	<u>111,828,252</u>	-	<u>1,120,027</u>	<u>7,950,735</u>
29,620,144	139,613,904	109,993,760	1.00102	1,101,654	7,468,228
-	-	-	-	-	249,712
<u>29,620,144</u>	<u>139,613,904</u>	<u>109,993,760</u>	-	<u>1,101,654</u>	<u>7,717,940</u>
29,620,144	140,093,386	110,473,242	1.00761	1,105,859	7,457,502
-	-	-	-	-	-
<u>29,620,144</u>	<u>140,093,386</u>	<u>110,473,242</u>	-	<u>1,105,859</u>	<u>7,457,502</u>
29,620,144	141,643,067	112,022,923	1.01223	1,128,754	7,544,486
-	-	-	-	-	-
<u>29,620,144</u>	<u>141,643,067</u>	<u>112,022,923</u>	-	<u>1,128,754</u>	<u>7,544,486</u>
29,620,144	157,264,725	127,644,581	1.00420	1,277,774	7,769,031
-	-	-	-	-	245,928
<u>29,620,144</u>	<u>157,264,725</u>	<u>127,644,581</u>	-	<u>1,277,774</u>	<u>8,014,959</u>
29,620,144	171,154,453	141,534,309	1.03480	1,416,617	8,840,095
-	-	-	-	-	244,642
<u>29,620,144</u>	<u>171,154,453</u>	<u>141,534,309</u>	-	<u>1,416,617</u>	<u>9,084,737</u>
29,620,144	172,343,113	142,722,969	1.02950	1,427,229	9,269,368
-	-	-	-	-	249,239
<u>29,620,144</u>	<u>172,343,113</u>	<u>142,722,969</u>	-	<u>1,427,229</u>	<u>9,518,607</u>
29,620,144	203,618,295	173,998,151	1.02670	1,739,980	10,622,484
-	-	-	-	-	257,735
<u>29,620,144</u>	<u>203,618,295</u>	<u>173,998,151</u>	-	<u>1,739,980</u>	<u>10,880,219</u>
29,620,144	216,818,104	187,197,960	1.01602	1,871,979	11,431,856
-	-	-	-	-	282,199
<u>29,620,144</u>	<u>216,818,104</u>	<u>187,197,960</u>	-	<u>1,871,979</u>	<u>11,714,055</u>

Source: County of Santa Barbara, "Tax Rates and Assessed Valuations", "Assessor's Role".

Table 5

**REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
BUILDING PERMITS, BANK DEPOSITS AND
TAXABLE SALES - CITY AND COUNTY
Last Ten Calendar Years
(Unaudited)**

Year	Building Permits (1)		City Bank Deposits (2)	Sales Tax (3)			
	Number	Value		# of City Tax Permits	City Taxable Transactions	County Taxable Transactions	City as % of County
1992	1,008	52,920,300	2,515,862,000	4,490	1,015,177,000	3,050,793,000	33.3
1993	1,169	31,295,200	2,424,468,000	4,579	1,033,998,000	3,076,825,000	33.6
1994	941	29,997,500	2,408,376,000	4,718	1,085,045,000	3,177,546,000	34.1
1995	1,154	44,700,000	2,397,912,000	4,829	1,104,519,000	3,226,206,000	34.2
1996	1,221	40,500,000	3,405,559,000	4,971	1,175,157,000	3,466,195,000	33.9
1997	2,898	71,864,802	2,400,073,000	4,996	1,253,902,000	3,614,586,000	34.7
1998	3,064	74,783,741	4,957,343,000	4,939	1,354,183,000	3,927,578,000	34.5
1999	3,133	76,267,301	5,114,390,000	4,961	1,439,155,000	4,195,291,000	34.3
2000	2,722	90,268,504	5,556,265,000	4,881	1,542,213,000	4,629,350,000	33.3
2001	2,998	64,170,362	5,727,730,000	4,869	1,580,609,000	4,953,412,000	31.9

Source: (1) Information provided by City of Santa Barbara Building Inspection Division.

(2) California State Banking Department - Research and Statistics. 1996 includes Santa Maria and Lompoc.

(3) Taxable Sales in California - State Board of Equalization - Research and Statistics Division.

Table 6

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Ten Largest Employers - South Santa Barbara County (1)
June 30, 2002
(Unaudited)

<u>Name</u>	<u>Activity</u>	<u>Number employed</u>
University of California, Santa Barbara	Education	9,500
County of Santa Barbara	Government	4,467
Santa Barbara Cottage Hospital	Health Care	1,951
Flaytheon/ E-Systems	Manufacturer	1,875
Santa Barbara Community College	Education	1,570
Santa Barbara High School District	Education	1,230
Sansum-Santa Barbara Medical Foundation Clinic	Health Care	1,170
City of Santa Barbara	Government	1,069
U. S. Postal Service	Postal Service	1,005
Santa Barbara Bank & Trust	Bank	820

(1) With the adoption of Article XIII A of the California Constitution in 1978, property tax as an indicator of economic stability/dependency diminished in importance. Accordingly, the Agency has elected to depict the ten largest employers in Santa Barbara County as a measure of overall economic stability of the City.

Source: Santa Barbara Chamber of Commerce.

Table 7

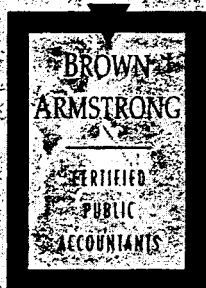
**REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Fidelity Bonds of Principal Officials
Year ended June 30, 2002
(Unaudited)**

<u>Name</u>	<u>Title of Official</u>	<u>Amount of fidelity bond</u>
James L. Armstrong	Executive Director and Secretary	\$ 5,000,000
Robert D. Peirson	Agency Treasurer	5,000,000
All other employees handling money affiliated with the Agency	-	5,000,000

Source: City of Santa Barbara Risk Management



**Compliance and
Internal Control Section**



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Andrew J. Paulden, CPA

Harvey J. McCown, CPA

Steven R. Starbuck, CPA

Aileen K. Keeter, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE (INCLUDING THE
PROVISIONS CONTAINED IN THE GUIDELINES FOR COMPLIANCE AUDITS OF
REDEVELOPMENT AGENCIES) AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS**

Chris M. Thornburgh, CPA

Lynn R. Krausse, CPA, MST

Joan M. Anderson, CPA

Bradley M. Hankins, CPA

Eric H. Xin, CPA

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Rosalva Flores, CPA

Bryan J. Lewis, CPA

Debbie A. Rapp, CPA

Julie A. Auvil, CPA

Connie M. Perez, CPA

The Board of Directors of
the Redevelopment Agency of
the City of Santa Barbara, California

We have audited the accompanying general-purpose financial statements of the Redevelopment Agency of the City of Santa Barbara, California (the "Agency"), a component unit of the City of Santa Barbara as of and for the year ended June 30, 2002, as listed in the table of contents, and have issued our report thereon dated September 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Section 33080.1(a) of the Health and Safety Code of the State of California, and the procedures contained in the Controller of the State of California "Guidelines for Compliance Audits of California Redevelopment Agencies."

Compliance

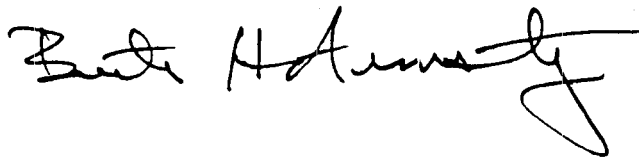
As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

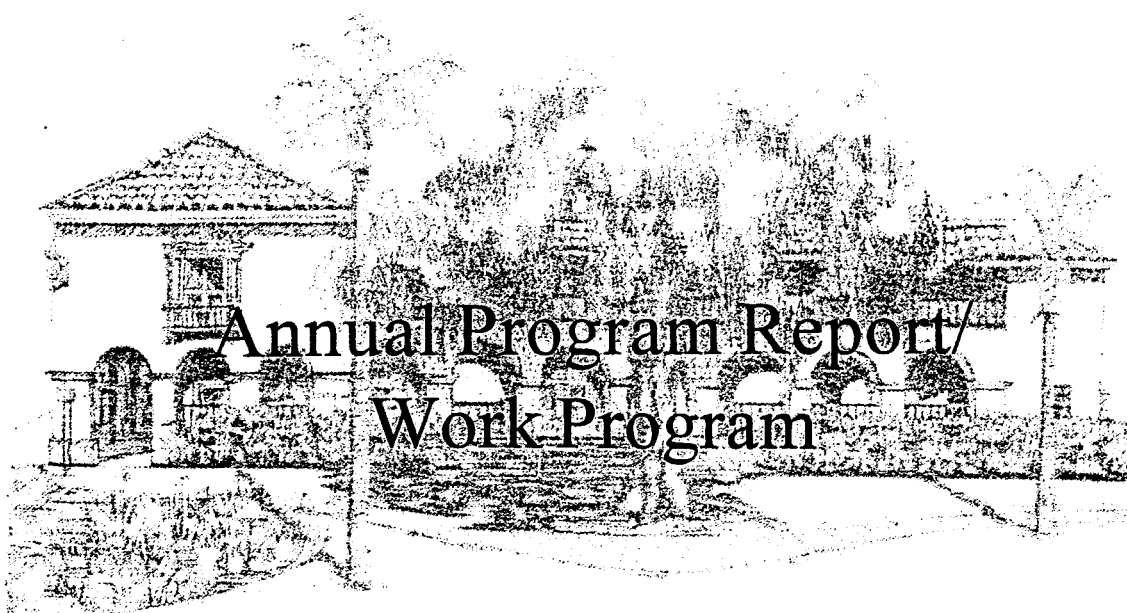
In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of members of the Agency, management and officials of the State of California Controller's Office. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Paul Den", with a stylized flourish extending from the end.

Bakersfield, California
September 4, 2002



Annual Program Report/ Work Program

**REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
ANNUAL WORK PROGRAM REPORT - FISCAL YEAR 2002**

(Not covered by Auditor's Report)

INTRODUCTION

This report, covering Fiscal Year ending June 30, 2002, was prepared with the most recent guidelines issued by the California Department of Housing and Community Development. This report includes a general narrative that describes the Agency's activities during Fiscal Year 2002.

CENTRAL CITY REDEVELOPMENT PROJECT AREA

DOWNTOWN SIDEWALK AND LANDSCAPING

Background

In Fiscal Year 1994, the State Street Landscaping Task Force (Task Force) developed guidelines intended to bring a sense of order and vision to the future changes proposed for the State Street Plaza. These guidelines encompass a range of issues related to both the aesthetic nature of the street and the practical needs of property owners, merchants, residents and visitors to Santa Barbara. In FY 97 the Agency identified the project to replace the sidewalks and landscaping on State Street from the 600 Block through the 1200 Block. This section was chosen because the sidewalk is over 25 years old and subject to high pedestrian activity.

The goals of the State Street Sidewalk Improvement Project are to improve pedestrian circulation and safety, improve business visibility, maintain and enhance landscape diversity, acknowledge significant architectural features of buildings, provide amenities for the comforts and convenience of pedestrians, and thereby provide a pedestrian friendly State Street Plaza. In Fiscal Year 1999, the Redevelopment Agency Board appropriated funds for sidewalk and landscaping enhancements along State Street from the 600 Block to the 1200 Block. It was anticipated that these sidewalk and landscaping improvements would take place on an annual basis until completed.

Phase I and Phase II of the State Street Sidewalk Improvement Project, constructed in 1999 and 2001, respectively, covered the 1200, 1100, 1000, 900, and 800 Blocks of State Street, between Victoria Street and De la Guerra Street. The Redevelopment Agency funded the basic project, which included replacement of the existing sidewalks with colored and patterned concrete and landscape improvements. Property owners in Phase I expressed a preference for an enhanced project, which would include brick pavers and a holiday lighting system. As a result, a Public Works Benefit Assessment District was formed to provide funding for the added cost associated with the enhanced project. Similar to Phase I, property owners in Phase II and Phase III expressed a preference for an enhanced project. As a result, on July 18, 2000, property owners in the 600, 700, 800, and 900 Blocks of State Street supported the formation of a Public Works Benefit Assessment District, which will result in a consistent, pedestrian friendly State Street Plaza from Cota Street to Victoria Street.

Phase III

Phase III of the State Street Sidewalk Improvement Project included sidewalk and landscaping improvements to the 600 and 700 Blocks of State Street, between Cota Street and De la Guerra Street. The design team of Penfield & Smith Engineering and Arcadia Studio, landscape architects, was awarded a contract for \$117,000 by the City of Santa Barbara to develop a preliminary design for the project as part of Phase III. In June 2001, the City awarded a final design contract to the same design team for \$115,500.

The redesign of the State Street sidewalks is consistent with the sidewalk and landscape improvements completed in the 800 through 1200 Blocks of State Street (Phase I and II) completed in 1999 and 2001, respectively. Activities in Fiscal Year 2001 consisted of the completion of preliminary design and the beginning of the final design.

The total appropriated for construction for Phase III (600 and 700 Blocks) was \$1,705,355. The construction contract was awarded to Lash Construction on January 8, 2002 in the total amount of \$1,598,594. Also awarded at that time was a professional construction support services contract to Penfield and Smith for a total of \$94,006. Fugro West was awarded the contract for soils and concrete testing for \$7,000. Science Applications International Corporation was contracted for archaeological work for \$5,755. As in the prior construction phases, the Downtown Organization mounted an aggressive promotional campaign to ensure public awareness of "business as usual" within the project area. Their grant totaled \$46,000. The Downtown Organization's 17-week campaign started two weeks prior to construction and included weekly merchant meetings, publicity, advertising, entertainment and the grand opening celebration. The City's Public Works Department received over \$71,000 for their role in providing

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construction administration services. The Phase III basic project was funded by the Agency's tax allocation bond proceeds (Series 2001A) that became available in July 2001.

A subcomponent of Phase III was an art bench designed by local artist, Donald Davis. In July 2001, the City Visual Arts Coordinator circulated a Request for Qualifications for the Bench Project to replace a planter in the 600 Block of State Street. A selection committee comprised of an Agency Boardmember, an Old Town Merchants Association member, the Santa Barbara County Arts Commissioner, and project landscape architect Bob Cunningham chose Donald Davis from a field of three qualified artists. The Redevelopment Agency guided the design process, which was approved by the Historic Landmarks Commission. The artist developed a scale model, provided a sample of the sculpted brick and oversaw the installation of the bench. The artist received \$12,000 for his work.

Phase III of the project began in the last week of January. The sidewalks were opened to the public in time for the Memorial Day weekend. Construction hours accommodated periods of high public use and the popular Farmer's Market had to shift up to the 500 blocks during construction. Teak benches, several drinking fountains, unique trash receptacles and bike racks enhance the sidewalks. A new kiosk was constructed at the southwest corner of Cota and State Street. Three new pads to accommodate the State of the Art sculptures were constructed. The fountain in the 600 Block of State Street was redesigned in keeping with the overall sandstone and brick plan. Sandstone medallions mark the mid-Block crosswalks. A gala grand opening was held in the afternoon on Saturday, June 8, 2002.

916 STATE STREET PUBLIC RESTROOMS AND FOUNTAIN

Early in the 1990's, the Agency attempted to respond to problems presented by a lack of public restrooms by funding a public restroom in the downtown area. Other funding priorities arose and the project was put on hold. The recently completed State Street Sidewalk Improvement Project renewed interest in the public restroom project due to the increasing pedestrian and economic activity along the State Street corridor. In January 2001, the engineering firm of Howard and Van Sande was retained as the prime design consultants for the public restrooms to be located at 916 State Street. This site is between Borders Books and Music and the Fiesta Five Theatres and will be integrated into façade the City Parking Structure #9. The local artist, Colin Gray, will transform a nearby structural pillar of the parking garage into a fountain. The restroom and the fountain have received final approval from the Historic Landmarks Commission. Final design and construction of the fountain and restroom has been estimated to be \$700,000. Construction is tentatively scheduled to begin in January 2003 and last approximately four months.

STATE STREET PEDESTRIAN CROSSWALKS

The Agency has allocated \$90,000 for replacing significantly damaged pedestrian crosswalks at State Street intersections and mid-blocks in the 400 and 500 blocks of State Street and the State Street and Cabrillo Boulevard intersection. The 600 Block crosswalks were replaced with brick as part of Phase III of the State Street Sidewalk Improvement Project. The 400 and 500 Blocks have been postponed so construction would not coincide with the summer tourist season. A more accurate estimate has priced the crosswalks at \$25,000 per crosswalk. An additional \$275,000 in additional funding has been budgeted in the Fiscal Year 2002-2003 budget.

NEWS-RACKS

At mid-year, it was determined that the older newsracks on lower State Street and at State and Cabrillo Boulevards were no longer repairable and needed to be replaced. The newsracks would be the same style as those purchased and installed by the Redevelopment Agency as part of the State Street Sidewalk Improvement Project in the 600 through 1200 Blocks of State Street. In compliance with the Municipal Code and to maintain the appearance of these aesthetically sensitive areas, the Redevelopment Agency purchased 8 two-unit newsracks for the 400 and 500 Blocks of State Street and 3 four-unit newsracks for the State Street and Cabrillo Boulevard location. The Agency funded the purchase and the installation for \$41,000. All of the new racks were in place by early June.

GRANADA GARAGE

The project is in final design and expected to be in construction within the next fiscal year. The team of Wilbur Smith and Associates and Penfield and Smith are the design professionals contracted for the final design. The Lot 6 parking structure, or Granada Garage, will include the following: 575 parking spaces, paseo improvements, a mid-block traffic signal on Anapamu Street, Downtown Parking office space, and an affordable housing component. The Agency is using \$19,000,000 from the Series 2001A bond proceeds to fund the project.

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CULTURAL ACTIVITIES

CULTURAL ARTS DISTRICT PLAN

Funding has been allocated for the professional studies needed to complete the Cultural Arts District Plan, which intends to plan for the development and/or renovation of performing arts venues, movie theatres, public cultural venues, and paseos and plazas on and around State Street north of Carrillo Street. Required professional studies include economic/fiscal analysis, traffic analysis, and environmental impact analysis. Meanwhile, the Agency will co-sponsor a Cultural Development Symposium in July 2002 to create an opportunity for Santa Barbara's many cultural arts groups and facilities users to engage in a dialogue with members of the local business, planning and design, government, and philanthropic communities about the historical and continuing critical role of the arts in the evolution of Santa Barbara's vibrant economy. The symposium will be followed by a half-day brainstorming session to be scheduled in September 2002.

STATE STREET SCULPTURE GALLERY

The State of the Art Gallery is a unique collaboration between the City and County of Santa Barbara and the Downtown Organization and is part of the City's commitment to placing public art in the heart of its Cultural Arts District. This Fiscal Year, the Agency granted \$75,000 to the County Arts Commission. The increase of \$10,000 over previous years reflects that more sculptures were exhibited and an increase in insurance and curatorial rates. This year the State of the Art Gallery featured works by internationally recognized sculptor William Tucker. Many of the bronzes were part of an exhibit of Tucker's work at the Tate Gallery in London last year. Paul Hayes Tucker (no relation to the artist) curated this year's exhibition.

SURPLUS LOT 6 PROPERTIES

As part of the Agency's effort to contribute to cultural activities in the Agency's Project Area, the Agency is considering the acquisition of 9 small parcels with access to the 1200 Block of State Street. In June, the Agency engaged Reeder, Gilman and Associates for appraisal services regarding the surplus properties surrounding City Parking Lot 6 currently being leased by the City for extra parking spaces. The appraisals are the first step in the negotiations by the Agency to acquire the parcels. The Agency has appropriated \$700,000 to assist in the development of these properties.

LOBERO

The Lobero Theatre Foundation indicated to the Agency a need to raise over \$2,000,000 to complete necessary technical and capital improvements to the theater's lighting, rigging, sound systems and physical plant. The Agency budgeted a matching grant of \$600,000 to the Lobero Theatre Foundation as a contribution to the cost of technical and capital improvements. The Agency's contribution was a catalyst to help complete Phase 2 of the Lobero's Capital Improvements Master Plan fundraising campaign. The funds were used for the complete renovation of the Lobero's rigging.

PLAZA DE LA GUERRA MASTER PLAN

Realizing the community importance of Plaza de la Guerra, the Agency funded Phase III of the Master Plan process. Phase III includes the development of a master plan and its presentation to the City Council for incorporation into the City's General Plan and El Pueblo Viejo Guidelines. The original grant for \$35,000 was allocated in Fiscal Year 1999-2000. Phase I included the production of a high quality book that serves as the official record of all the historic papers, essays, architectural drawings, and historical photographs of Plaza de la Guerra. In October 1999, the Santa Barbara Trust for Historic Preservation was granted \$12,500 for the production of the book. The book "Plaza de la Guerra Reconsidered" has been published and circulated by the Santa Barbara Trust for Historic Preservation. In December 2000, the Agency Board granted the Downtown Organization \$12,500 to complete the second phase of the Plaza de la Guerra Master Plan. The purpose of Phase II was to gather input and identify issues about future improvement and use of the Plaza by holding professionally facilitated stakeholder meetings. In early 2001, the Downtown Organization, working with Agency and City staff, convened a "Core Group" of key participants in and around Plaza de la Guerra to begin Phase II of the master plan process. The Core Group includes property owners of parcels adjacent to Plaza de la Guerra, and representatives from the Parks and Recreation Commission, Historic Landmarks Commission, the Santa Barbara News Press, the Downtown Organization, the Santa Barbara Conservancy and representatives from City Council, the City Administrator's Office, Parks and

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Recreation Department, and the Redevelopment Agency. This group has met seven (7) times in the last year in their efforts to design a process that is inclusive and considerate of various viewpoints and issues associated with upgrading Plaza de la Guerra. The Core Group has worked collaboratively toward the common goal of improving Plaza de la Guerra with simple, people-oriented improvements to the infrastructure and programming to help celebrate Plaza de la Guerra's role as a vital part of the community. In March 2002, the Downtown Organization received a grant for the final \$10,000 from this fund to initiate a General Plan Amendment for Plaza De La Guerra. The Master Plan will provide the City with a clear direction for improving the entire area including landscape, hardscape, and parking.

CASA DE LA GUERRA

In Fiscal Year 2000, the Santa Barbara Trust for Historic Preservation was awarded a grant of \$100,000 for restoration activities at the Casa de la Guerra that focused on Room 1 of the West Wing, the Utility Room, an archaeological report, and the Street in Spain portions of Casa de la Guerra. The \$144,000 grant from Fiscal Year 2002 is being used for roof work on the East and West Wing, new Entrance Steps, historic door handles, repair the stone foundation on Street in Spain side, and finish work on Rooms 1, 2, 3 and 4 to complete the restoration of Casa de la Guerra and thereby provide the cultural anchor for Plaza de la Guerra, the cultural and historic center of Santa Barbara.

EL PRESIDIO

The Santa Barbara Trust for Historic Preservation received an Agency grant of \$120,000 to complete archaeological work and additional construction work at the Northwest Corner of El Presidio Santa Barbara. This will include a detailed cataloguing of artifacts followed by written reports of the findings. The grant was increased by \$20,000 over the original proposal due to the inclusion of the Northwest Corner construction work. The archaeological work will enable the reconstruction of the second defense wall. The defense wall is nearly 300 feet in length and spans from Santa Barbara Street to the northwest corner of El Presidio.

CENTER STAGE THEATER

In February, the Agency granted the Center Stage Theater \$9,000 to provide funding to replace the theater's performance soundboard power source and replace the performance lighting fixtures. Under the lease agreement between The Taubman Company and Center Stage Theater, Taubman provides a \$40,000 annual operating subsidy to Center Stage on a matching grant basis; therefore, funding provided by the Agency will have the added benefit of assisting Center Stage Theater in achieving its matching requirement.

HOLIDAY ART SCULPTURES

In September 2001, the Downtown Organization requested an Agency matching grant for \$6,000 to assist in the construction and installation of three public, holiday art pieces. The pieces were installed along State Street in the Cultural Arts District and acted as another special holiday season attraction for the Downtown Business Community and the Central City Redevelopment Project Area. The pieces were endorsed by the Visual Art in Public Places Committee and received approval from the Historic Landmarks Commission as "temporary art." The three pieces were created by local artist Dominique Reboul. The whimsical pieces were titled the Tightrope Walker, the Circus Juggler, and the Dancing Bear and were approximately 16 feet tall and composed of steel, galvanized steel, and aluminum. The pieces were installed in three separate locations along State Street in mid-November (following the conclusion of the State of the Art exhibit and made use of the existing art pads) and were removed in late-January.

CHILDREN'S DISCOVERY MUSEUM

In May 2002, the Agency approved a matching grant of \$25,000 to assist the non-profit Children's Discovery Museum with a feasibility study. The feasibility study will have the following components: market analysis, needs assessment and concept development, a program plan, a staffing plan, and a space and facility requirements analysis. The study will consider a site on East Anapamu Street adjacent to City Parking Lot 6 currently leased to the City for use as a parking lot and an additional potential site, but the majority of the analysis will be applicable to Santa Barbara in general.

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DOWNTOWN ORGANIZATION CULTURAL PROMOTIONS

The Downtown Organization has requested and received funding to promote the Cultural District of State Street North of Carrillo Street to counteract the decline in activity in that area as measured by the City's 1999 report, *Economic Analysis: North of Carrillo*. Activities conducted by the Downtown Organization have included extensive media, film, and print campaigns to promote downtown as the region's primary arts, dining, and retail center. The Agency budgeted \$35,000 for Cultural Promotions during the Fiscal Year 2002.

WATERFRONT AREA

SANTA BARBARA RAILROAD STATION IMPROVEMENT PROJECT

A considerable amount of capital remains in the account (approximately \$210,000) primarily for the possible renovation and replacement of the Rail station floors. Different portions of the original project revealed apparent dry and wet rot of the sub-flooring. Staff is awaiting a proposal from Eagle Restoration regarding possible solutions to the flooring. Also, numerous minor issues continue to arise at the station including repairs to the drainage system, which include drainpipe retrofitting and attic dry rot repair. The Railroad Depot recently received California Preservation Foundation's prestigious Historic Preservation Award for 2001.

SIGNALMAN'S BUILDING

The Agency applied for and received California Transportation Commission funding in the amount of \$172,000 to develop the Signalman's Building into a small railroad museum and a visitor information center annex. Caltrans Transportation Enhancement Activities (TEA) funding criteria allow for their use in the development of transportation museums. Originally, the Chamber of Commerce and the Agency had been planning to develop a larger Visitor Center for this property, but the Visitor Center will now be incorporated into a private project under development in the same area. A small visitor information annex would be advantageous for arriving passengers at the City-owned Railroad Station. Previously, the Agency set aside \$25,000 as matching funding for the development of the Signalman's Building. A required Section 106 Study is being completed in order to receive the Caltrans funding. The Agency has contracted with Alex Cole Associates to perform the study.

HISTORIC RAILROAD SPUR

The Agency meanwhile has applied for Caltrans funding for the development of the Historic Railroad Spur with a restored rail car for potential use as either a display center or for meetings. The project has met Caltrans eligibility requirements and is now being processed for formal selection for funding. The Caltrans matching grant would be an estimated \$350,000. The Agency has allocated \$46,000 in matching funds towards the development of the Historic Railroad Spur.

RAILROAD SOUTH PARKING LOT

When the development plans for the Railroad Station Improvement Project were approved, a 47-space parking lot was to be constructed on the parcel just south of the railroad tracks (125 State Street). In 1996, the Chamber of Commerce approached the Agency with a request to develop a new visitor center on this lot instead. The Agency agreed, and the design of a visitor center was underway when the construction cost estimate came in substantially higher than expected. In May 1999, the Agency decided to participate as a co-applicant in a private development at the corner of State Street and Cabrillo Boulevard, called La Entrada, and incorporated the proposed Visitor Information Center for the Chamber of Commerce into this project thereby allowing the site to be developed as a parking lot as originally approved. The engineering firm of Flowers and Associates produced the preliminary redesign. The inclusion of a paseo walkway and increased landscaping and a more pedestrian-oriented design has resulted in a reduction from 47 to 40 proposed parking spaces. The final design team consisted of Flowers and Associates, Associated Transportation Engineers, and David Black and Associates, Landscape Architects, for a total contract amount of \$47,583. The lot design has secured the Historic Landmarks Commission approval. The project is on-hold pending the status of the private La Entrada project. The Agency has reserved \$450,000 for the development of the parking lot.

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RAILROAD ANNEX PARKING LOT

Agency Staff and project engineers are developing plans for the redevelopment of a parcel recently acquired from Caltrans at 235 State Street. The parcel will be developed into an additional arm of the Railroad Station Parking Lot and will provide an additional 40 parking spaces. Flowers and Associates prepared a preliminary design, which received preliminary approval from the Historic Landmarks Commission on March 6, 2002. Construction is scheduled to begin in January 2003 and last three and one half months. Meanwhile, the old lot has been temporarily re-stripped to provide adequate parking and safety during construction. Upon completion of the parking lot renovations, the Agency will prepare a Redevelopment Parcel map for the entire train depot area. The Agency has allocated \$500,000 for the final design and construction.

BORGATELLO PROPERTY

The Agency had the opportunity to acquire four adjoining parcels in the waterfront area in April 2001. The Agency purchased these four parcels with the potential of future acquisition of three more parcels also owned by the Spumoni Holding Company. The City loaned the Agency \$2,875,000 for the purchase. The loan was paid off with a portion of the proceeds from the Series 2001A bond issued in July 2001.

Meanwhile, a comprehensive planning effort is underway to determine the ultimate use of the four original parcels totaling 2.4 acres at 125 Calle Cesar Chavez. A determination is being made whether to go forward with a proposed extension of Cacique Street, which would require a significant amount of the area of the present parcels or construct a multiuse path instead. Some of the uses suggested to date include the development of a community arts center - housing performing arts rehearsal space and art workspace, remote parking for the Cacique Street homeless shelter, an Urban Ecology Center and recycling facility, and various recreational and social service uses.

OTHER ACTIVITIES

TRANSPORTATION MANAGEMENT PROGRAM

The Agency contributed \$300,000 this fiscal year for the operation of the City's Transportation Management Program (TMP). The TMP is a comprehensive traffic and parking management programs that combines disincentives for single occupant automobile use with incentives for alternative modes of transportation. This program is required mitigation for traffic impacts from private development and Agency downtown revitalization activities. Two commuter parking lots (Cota/Santa Barbara Streets and Carrillo/Castillo Streets) allow employees in the area to park on the fringes of the central business district and ride shuttle buses to work places. The annual contribution is used to underwrite the downtown and cross-town shuttle buses.

SOUTH COAST COMMUNITY INDICATORS

The Agency provided \$4,000 as partial funding of a statistical report that measures the quality of life indicators on the South Coast. The report is published annually. The data produced is helpful to the Agency in planning its activities that address blight in the Project Area.

AGENCY'S AFFORDABLE HOUSING PROGRAM

4200 CALLE REAL (ST. VINCENT'S)

Mercy Charities Housing California (Mercy Charities), a State-wide nonprofit housing developer, proposes to build a 75-unit rental housing development for low- and very low- income families plus a 95-unit development for seniors on the site of the former St. Vincent's School, a 19-acre site in the unincorporated County near Highway 154 and Calle Real. The Agency provided Mercy Charities with an \$87,000 deferred predevelopment loan and Santa Barbara County has provided a \$25,000 predevelopment loan. The Agency and the State are considering providing additional predevelopment assistance later in the year. The annexation of the site into the City is pending. The design of the project is complete. The Agency has budgeted \$7 million for the project and the County has committed \$2.5 million. The majority of the remaining funding is expected to come from four percent tax credits and HUD 202 funds. If Mercy Charities is successful in securing the needed funding, construction will start in 2003.

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335 WEST CARRILLO/922 CASTILLO STREET (CASA DE LAS FUENTES)

The City's Housing Authority is in the process of constructing 42 new one-bedroom and studio apartments on this site. The City is encouraging construction of new housing downtown for people working in the area in order to reduce dependency on automobiles and traffic congestion. The Agency has provided \$1.9 million in grant and loan funds for construction plus \$600,000 in California Housing Finance Agency HELP funds for predevelopment/short-term gap financing. The Housing Authority expects construction to be completed and the units occupied by January 2003.

315, 319 and 321 WEST CARRILLO STREET

The Agency recently provided the City's Housing Authority with a \$1.75 million loan for acquisition of property adjacent to their Casa de las Fuentes project described above. The Housing Authority is considering developing a single-room occupancy facility on the half-acre site. Project design and planning for the needed financing will begin shortly.

309 – 319 SOUTH VOLUNTARIO STREET

The Agency and City have provided grant funds to the City's Housing Authority to acquire three under-utilized properties for the construction of new affordable housing. The Housing Authority has demolished two dilapidated abandoned single-family structures. The third single-family structure was previously converted to three units, which are occupied by low-income households. The Housing Authority will manage them until construction commences on the new project. In removing the three single-family structures, the Housing Authority will be able to construct 20 new low-income units. Project design is complete, however, financing plans are still under consideration.

705 OLIVE STREET

The Agency and City provided financial assistance to the City's Housing Authority for the demolition of a dilapidated single family home in order to build a new triplex unit. The City is encouraging the construction of new housing downtown for people working in the area in order to reduce dependency on automobiles and traffic congestion. The Agency provided California Housing Finance Agency HELP funds for predevelopment/short-term gap financing. The City used federal funds to provide a grant for construction. The Housing Authority has completed construction and the project is fully occupied.

818 GARDEN STREET

Laguna Cottages, a local nonprofit organization that provides low-income seniors with affordable housing, plans to construct 11 new senior studio units adjacent to their existing 44-unit senior facility. The City and Agency have provided \$867,000 in grants, and Laguna Cottages has raised an additional \$1 million in private grants to develop the new units. The grants will result in rents that will be affordable to very low-income seniors. The design is complete, and construction is expected to start later in the year.

1221 ANACAPA STREET

The Agency selected Peoples' Self-Help Housing Corporation through a Request for Proposals process for the development of new affordable housing adjacent to a new parking structure to be built downtown. Peoples' is a large nonprofit housing organization based in San Luis Obispo, with a local office in Santa Barbara. The Agency has committed to providing a predevelopment loan for the project, and the City has committed to providing permanent financing. Design for the 8 to 12 unit project is underway, and construction is expected to start in 2004.

210 WEST VICTORIA STREET / 219 WEST SOLA STREET

Peoples' Self-Help Housing Corporation plans to add 6 new apartments to a small bungalow cottage court on this site. The City and Agency assisted Peoples' with the acquisition and rehabilitation of the cottages and have provided predevelopment loans to help cover the costs of designing the new units. Additional City and/or Agency funds will be needed for construction. Construction is expected to commence in 2003.

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421-425 EAST COTA STREET (MOM'S PROPERTY)

The Agency provided Transition House with a \$320,000 loan for the acquisition of 421-425 E. Cota Street, consisting of two mixed-use buildings – one with nine occupied residential units and ground floor commercial space, the other a former restaurant. Transition House operates a nearby homeless shelter and offers training programs for its clients. Transition House acquired the property in order to expand its inventory of affordable housing available to families ready to leave the homeless shelter. As current tenants leave their units at 421 East Cota Street through normal turnover, Transition House makes them available to their clients. The building that housed the former restaurant has structural problems and will be demolished in order to make way for a new structure planned by Transition House that will feature space for day care on the ground floor and additional affordable housing on the upper two floors. Upon design of the new structure, Transition House plans to request additional Agency funding for the new construction.

22 EAST VICTORIA STREET (VICTORIA HOTEL)

The City provided loans and grants to Peoples' Self- Help Housing Corporation (PSHHC) for the acquisition and rehabilitation of the Victoria Hotel. Originally built as a tourist hotel and later converted to single-room occupancy (SRO) use, the hotel had been placed on the market. By assisting Peoples' in the acquisition of the property, the City succeeded in saving this rare downtown SRO hotel from almost certain conversion to office or tourist hotel use. The rehabilitation is extensive and includes seismic retrofitting throughout the structure. Peoples' has completed the hotel's rehabilitation and created a regional office for their organization on the ground floor. Agency funds have not been used, however, Agency staff was actively involved in arranging City financing for the project.

320 SOUTH SALINAS STREET

The City provided Transition House with financial assistance for the acquisition and rehabilitation of a 13-unit property located at 320 S. Salinas Street. Transition House acquired the property in order to expand its inventory of affordable housing available to families ready to leave the homeless shelter Transition House operates. Transition House has rehabilitated the existing 13-unit building with tenants in place. As units become vacant through normal turnover, Transition House makes them available as permanent housing to their clients. The site is large and can accommodate new construction. The design for 6 new units has been completed, and the City has provided Transition House with a \$480,000 low-interest deferred loan for construction. Transition House expects to start construction later in the year. Agency funds have not been used, however, Agency staff was actively involved in arranging City financing for the project.

CELEBRATION OF AFFORDABLE HOUSING

The Celebration of Affordable Housing, spearheaded by the Unitarian Society's Social Concerns Committee, was held on September 28, 2001. The public was invited on guided tours of several affordable housing developments in the south coast area. The Agency's contribution was \$5,000 and the event was a success.

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INTRODUCTION

This report, covering the projected program year for the fiscal year ending June 30, 2003, was prepared in accordance with the most recent guidelines of the California Department of Housing and Community Development. The report includes a description of the work program for the 2003 Fiscal Year. Funds for these projects are contained in the Redevelopment Agency City of Santa Barbara budget for Fiscal Year 2003, including reappropriations from prior year balances.

FISCAL YEAR 2003 WORK PROGRAM

HOUSING PROGRAMS FUND PROJECTS

Housing Revolving Fund: **\$3,070,000**

Funds available for the development of affordable housing projects, including land-banking, site improvements, interim financing, rehabilitation, and new construction of multi- or single-family properties per State statute.

REDEVELOPMENT AGENCY GENERAL FUND PROJECTS

Funds have been appropriated in the Agency's General Fund (Fund 111) for the following projects in the approximate amounts shown:

West Downtown Improvement Program: **\$50,000**

Funds in Fiscal Year 2002-2003 to be used for planning, survey costs and facilitated public meetings to develop the infrastructure Improvement Plan.

Property Management: **\$85,000**

Funds for miscellaneous improvements to Agency-owned properties and property management obligations.

Transportation Management Program Shuttle Bus Contract: **\$300,000**

Funding contribution to shuttle program that mitigates traffic and parking impacts resulting from Agency development projects.

Hazardous Materials: **\$20,000**

Funds to investigate, characterize and clean up toxic contaminants on Agency-owned properties.

Downtown Organization Cultural Promotions 2003: **\$58,500**

Funds for an extensive media promotion of the downtown's cultural and historic components.

Downtown Organization Holiday Art Gallery 2003: **\$32,800**

Funds to complete the Holiday Art Gallery with five additional pieces, for a total of eight holiday art pieces.

Santa Barbara Maritime Museum: **\$500,000**

Funds to be used for the creation of four interactive exhibits including: Safety at Sea, Navigation and Piloting, Surfing, and the Channel Islands.

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SB Trust for Historic Preservation - El Presidio 2003: **\$250,000**

Funds for the Northwest Corner Construction Project. Activities will include reconstruction of the original Presidio defense wall, restrooms, and four additional rooms including the Visitor Center.

SB Trust for Historic Preservation - Research Center 2003: **\$50,000**

Funds to assist in the complete restoration of the Research Center building. The Research Center building is a City-designated historic structure of merit located at 215 East Canon Perdido adjacent to the Alhecama Theater.

Pearl Chase Society: **\$28,000**

Funds for the promotion of the 28th Annual California Preservation Conference that will take place in April 2003. The Conference is being sponsored by the Pearl Chase Society and will include a reception at the Historic Train Depot.

Contemporary Arts Forum: **\$17,500**

Funds for capital improvement at CAF's Library Gallery located in Paseo Nuevo. Improvements will include reconfiguration of the ceiling, creation of a reception desk, and general lighting improvements.

South Coast Community Indicators Project: **\$4,000**

Funds for the partial cost of an annual statistical report that measures quality of life indicators on the South Coast. The data produced is helpful to the Agency in planning its activities that address blight in the Project Area. The City contributes \$6,000 of the total cost of \$70,000.

Appropriated Operating Reserve: **\$50,000**

REDEVELOPMENT CAPITAL FUNDS PROJECTS

Carrillo Street Sidewalk Construction Project: **\$500,000**

Funds allocated for Public Works to use in sidewalk, curb, and gutter replacement on Carrillo Street from Chapala to Anacapa Streets.

916 State Street Restrooms/Fountain: **\$175,000**

Additional funding for final design and construction for public restrooms including a public fountain proposed in the paseo between Borders Books and Fiesta Five Theatres/City Parking Structure #9.

State Street Pedestrian Crosswalks: **\$275,000**

Additional funding to replace nine damaged pedestrian crosswalks on State Street intersections and mid-blocks at a cost of approximately \$25,000 per crosswalk.

State Street Sidewalks Phase I Modifications: **\$150,000**

Funds to remedy a number of items that were either not included in Phase I due to budget constraints or were not completed in a manner consistent with Phase II and III.

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(Not covered by the Auditor's Report)

<i>Downtown Recycling Container Program - Phase I:</i>	<i>\$200,000</i>
Funds for Public Works use in a project to replace public trash containers with containers that include a recycling element. The first phase focuses on the primary downtown corridors.	
<i>Carrillo Recreation Center Restoration:</i>	<i>\$100,000</i>
Funds to assist the Parks and Recreation Department in the various studies that will lead to the complete exterior and interior restoration of the Carrillo Recreation Center and Gymnasium.	
<i>Lower State Street Public Restrooms:</i>	<i>\$550,000</i>
Funds to design and construct proposed public restrooms in an undesignated location along lower State Street.	
<i>Louise Lowry Davis Center Restoration:</i>	<i>\$350,000</i>
Funds to assist the Parks Department with the interior and exterior renovation of the Davis Center including making the Center ADA compliant.	
<i>Spencer Adams Parking Lot and Site Improvements:</i>	<i>\$150,000</i>
Funds to assist the Parks Department with various parking lot and site improvements at the lawn bowling center.	
<i>Fig Tree Park Improvements:</i>	<i>\$150,000</i>
Funds to extend the existing sidewalk around the park fronting Montecito Street and around the entrance to the Railroad Station and for additional signage and ADA accessibility compliance.	
<i>Railroad Station Improvement:</i>	<i>\$200,000</i>
Funds to complete the renovation of the station sub-flooring and replacement tiling.	
<i>Chase Palm Park Wisteria Arbor:</i>	<i>\$580,000</i>
Funds allocated in the Fiscal Year 1999-2000 budget for the construction of a Wisteria Arbor at Chase Palm Park. Construction awaits the development of Fess Parker's Waterfront Hotel.	
<i>Artist Workspace:</i>	<i>\$1,000,000</i>
Funds designated in Fiscal Year 2000-2001 to be used for supporting an artist workspace when appropriate locations have been identified.	
<i>Plaza Vera Cruz Park:</i>	<i>\$77,000</i>
Funds for improvements to an existing downtown park located between Haley and Cota Streets. Improvements will include a new handicap accessible playground, drinking fountain, benches, and various landscaping improvements. The Park Department is working on a conceptual design and holding neighborhood meetings.	

**REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
ANNUAL WORK PROGRAM REPORT - FISCAL YEAR 2003**

(Not covered by the Auditor's Report)

BOND CAPITAL PROJECTS

Lot 6 Parking Structure - Design and Construction: ***\$19,000,000***

Funds for the design and construction of a public parking structure, Granada Garage, that includes 575 parking spaces, paseo improvements, a mid-block traffic signal on Anapamu Street, the Downtown Parking office space, and an affordable housing component.

Opportunity Acquisition Fund: ***\$5,027,000***

Funds for opportunity purchases of property in the Project Area to be used for public-benefit development consistent with the Redevelopment Plan. The Agency used \$2,875,000 of the original \$8,000,000 to pay off a loan from the City used to acquire four parcels from the Spumoni Holding Company.

Ensemble Theater: ***\$2,500,000***

Funds designated for predevelopment and construction costs of a jewel box theater as well as Agency-related obligations for installation of public paseos around the theater development and potential costs related to the acquisition by the Agency of the privately-owned City-leased surface parking lots.

Granada Theater: ***\$3,000,000***

Funds requested by the Santa Barbara Center for Performing Arts in order to acquire and renovate the Granada Theater as proposed in the concept of the Cultural Arts District Plan that is in the process of being formulated.

Mission Creek Flood Control Enhancement: ***\$2,500,000***

Funds to augment the Army Corps of Engineers-funded flood control project for Mission Creek. Enhancements could include acquisition of property for creek open space and pocket parks, landscaping, aesthetic treatment of historic bridges and pedestrian paths.

APPENDIX B
FISCAL CONSULTANT REPORT

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Santa Barbara Central City Redevelopment Project

Fiscal Consultant Report

2003 Tax Allocation Bonds

November 21, 2003

Redevelopment Agency of the City of Santa Barbara
630 Garden Street
Santa Barbara, CA 93102



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Fiscal Consultant Report

Santa Barbara Central City Redevelopment Project

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Fiscal Consultant Report

Santa Barbara Central City Redevelopment Project

Introduction

This Fiscal Consultant Report ("Report") has been prepared at the request of the Redevelopment Agency of the City of Santa Barbara ("Agency") to present the projected tax increment revenues from the Agency's Central City Redevelopment Project ("Project"). It is our understanding that the Agency will employ this Report to substantiate available tax increment revenue generated within the Santa Barbara Central City Redevelopment Project Area ("Project Area") that will support debt service for the Agency's proposed 2003 Tax Allocation Bonds ("Bonds").

This Report presents historical assessment information and future revenue projections for the Project Area. Background assumptions and other pertinent information are provided in the text and detailed information is presented in the following tables:

Table 1:	Redevelopment Plan Limits
Table 2:	Historic Assessed Values
Table 3:	2003-04 Net Secured Assessed Values by Land Use Category
Table 4:	Increases in Assessed Values Due to Resales
Table 5:	Assessment Appeal History
Table 6:	Building Permit History
Table 7:	Estimated to Actual Tax Increment Collections
Table 8:	Top Twenty Secured Taxpayers
Table 9:	Additional Parity Bonds Test
Table 10:	Tax Increment Projections

The projected assessed values and tax revenues presented in this Report are based upon assumptions formulated from the following:

1. historical growth trends;
2. trended growth in valuation as permitted by Article XIII A of the California Constitution; and
3. assessment and apportionment procedures of the County of Santa Barbara ("County").

Revenue projections have been conservatively estimated in order to reduce the possibility of overstating future tax increment revenue.

Background

On August 30, 1977, the City Council adopted the First Amended Redevelopment Plan for the Santa Barbara Central City Redevelopment Project Area ("Plan"). (The original Redevelopment Plan was adopted on November 14, 1972, but was inoperative until adoption of the First Amendment in 1977.) The Plan has been amended a total of five times, most recently in 1999.

The Project Area includes residential, public, and commercial uses in the downtown and tourist areas of the City. The Project Area encompasses approximately 850 acres and is generally bounded to the north by Victoria Street, to the south by the Pacific Ocean and Cabrillo Boulevard, to the west by Highway 101, and to the east by Santa Barbara Boulevard.

Redevelopment Plan Limitations

The Plan sets forth time and financial limitations with regard to collecting tax increment revenue and incurring bonded debt. These limits are summarized below:

Time Limitations

Table 1 summarizes the Plan's current time limitations that are pertinent to Project tax increment revenues. These time limitations involve the Agency's ability to incur debt, undertake plan activities, and collect tax increment revenue. RSG has reviewed these limitations and has determined that proposed Bonds would not be impacted by these limitations.

Financial Limitations

Section 602 of the Plan establishes a cumulative limit of \$431,130,000 on the amount of net tax increment revenue that may be collected by the Agency. This limit is defined as net of any direct or indirect payments made to a taxing agency. Based on discussions with Agency staff, no taxing agencies receive payments from Project tax increment revenues.

Based on the projections contained in Table 10, RSG does not anticipate that the \$431,130,000 cumulative tax increment limit would be reached before the Plan's authority to collect tax increment revenue expires in fiscal year 2021-22. However, if growth exceeds 2.37% annually, this limit could be reached earlier and could prevent the Agency from collecting tax increment revenue for any purpose after that date.¹ Agency bond counsel has confirmed that the Agency has existing covenants requiring the Agency to monitor the tax

¹ Assumes growth only in secured assessed value.

increment limit, and calls for the redemption of bonds if the limit impairs the Agency from meeting its debt service requirements.

The Plan does not limit the amount of bonded debt that may be outstanding. Section 33334.1 of the California Community Redevelopment Law ("Redevelopment Law") only requires such a limit for Plans adopted after October 1, 1976. As stated earlier, the Plan was adopted in November 1972.

Redevelopment Plan Limits

Table 1

Central City Redevelopment Project

Limitation	Plan Limit	Notes
Time Limitations		
Final Date to Incur Indebtedness	1/1/2004	
Duration of Redevelopment Plan	8/30/2012	
Final Date to Collect Tax Increment Revenue	8/30/2022	May collect beyond this time limit to pay debts incurred prior to Jan. 1, 1994, and to satisfy housing production obligations.
Financial Limitations		
Cumulative Tax Increment Limit	\$431,130,000	Established by December 1986 amendment, limits cumulative amount of tax increment revenue collected by Agency after January 15, 1987 to \$431,130,000

Source: Central City Redevelopment Plan

General Assumptions in the Revenue Projections

Assessed Valuation

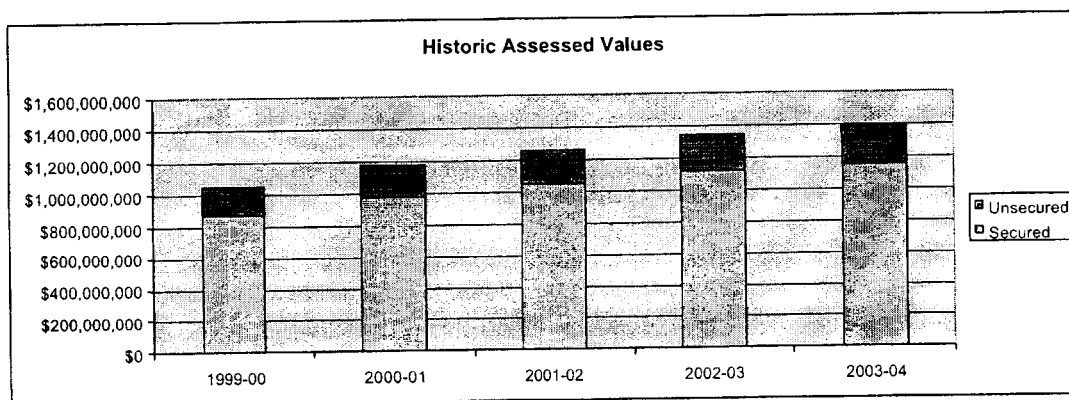
Tax increment revenue is generated from increases in the total assessed value above the base year value. The current year (fiscal year 2003-04) total assessed value is \$1,391,742,685, of which tax increment revenue is generated from the incremental assessed value in excess of the Project Area's 1972-73 base year value of \$126,515,373.

Table 2 summarizes year-to-year changes in Project Area assessed values for the past five years based upon the County Auditor-Controller's annual assessed value reports. During this period, Project Area assessed values have increased by approximately 32.1%, due to new construction and appreciation in the local real estate economy, as discussed later in this Report. The 2003-04 total Project Area assessed value of \$1,391,742,685 is approximately 3% higher than the 2002-03 assessed value of the Project Area.

Historic Assessed Values Table 2
Central City Redevelopment Project

	1999-00	2000-01	Growth %	2001-02	Growth %	2002-03	Growth %	2003-04	Growth %
Secured	\$869,667,221	\$978,226,328		\$1,045,801,713		\$1,112,606,252		\$1,157,799,198	
Unsecured	172,343,113	203,618,295		216,818,104		228,957,836		232,693,845	
State Utility	11,333,342	6,919,172		6,965,541		7,590,231		1,249,642	
Total	\$1,053,343,676	\$1,188,763,795	13%	\$1,269,585,358	7%	\$1,349,154,319	6%	\$1,391,742,685	3%
Base Year	(126,515,373)	(126,515,373)		(126,515,373)		(126,515,373)		(126,515,373)	
Incremental	\$926,828,303	\$1,062,248,422	15%	\$1,143,069,985	8%	\$1,222,638,946	7%	\$1,265,227,312	3%

Source: County of Santa Barbara



The majority of the secured assessed value in the Project Area is generated by commercial and residential property. Table 3 summarizes the 2003-04 total secured assessed values for the Project Area by land use category.

2003-04 Total Assessed Value by Land Use Category

Table 3

Central City Redevelopment Project

Land Use Category	Total Secured Value	% of Total	Number of Parcels	% of Total
Non-Residential:				
Commercial	\$650,362,210	56.09%	681	38.43%
Vacant Commercial	6,343,875	0.55%	37	2.09%
Hotel/Motel	161,537,663	13.93%	36	2.03%
Industrial	82,415,268	7.11%	119	6.72%
Vacant Industrial	8,810,915	0.76%	33	1.86%
Recreational	4,430,878	0.38%	11	0.62%
Government/Social/Institutional	189,250	0.02%	28	1.58%
Miscellaneous	440,528	0.04%	31	1.75%
Subtotal Non-Residential	\$914,530,587	78.87%	976	55.08%
Residential				
Single Family Residence	\$55,110,540	4.75%	258	14.56%
Condominium/Townhouse	44,835,851	3.87%	119	6.72%
Mobile Home	470,801	0.04%	2	0.11%
2-4 Residential Units	72,375,990	6.24%	259	14.62%
5+ Residential Units	67,001,439	5.78%	118	6.66%
Vacant Residential	5,049,286	0.44%	37	2.09%
Subtotal Residential	\$244,843,907	21.12%	793	44.75%
Unknown Use	163,611	0.01%	3	0.17%
Total	1,159,538,105 1/	100.00%	1,772	100.00%

1/ This total is calculated from Metroscan data and varies slightly from data obtained from the County of Santa Barbara

Source: Metroscan

Growth Assumptions

The enclosed assessed valuation forecast incorporates a 2% annual increase in the Project Area's secured assessed value. (Because unsecured values are not subject to annual inflationary increases, and are, by nature subject to unpredictable increases and decreases, these values were held constant in the enclosed forecast.)

The growth assumptions were established by RSG to account for the following four factors that affect future tax increment collections in the Project Area.

Article XIII A (Proposition 13) Inflationary Adjustments

As enacted by Proposition 13 in 1978, Article XIII A of the State Constitution limits annual inflationary adjustments to property assessed values to a maximum of 2% annually. Each year, the State Board of Equalization establishes this annual increase based on the statewide consumer price index for the previous year (October to October). The Proposition 13 inflationary factor has been less than

the 2% maximum three times in the past 15 years, most recently in fiscal year 1999-00, when the inflationary adjustment was 1.853%.

Because the Proposition 13 factor tends to remain at the 2% level historically, RSG's revenue forecast assumes that this inflationary adjustment will be 2% annually in the future.

Changes in Value Caused by Ownership Changes

Based on an analysis of Project Area property assessments, RSG has determined property sales are largely responsible for the recent increases in Project Area assessed values. To analyze the impact of resales on Project Area assessed values, RSG compiled statistics on sales for the first half of calendar year 2003. A monthly and year-to-date summary of these sales is presented in Table 4. Table 4 indicates the total number of property sales, and the amount by which the value transferred exceeded the properties' assessed values. The analysis summarizes 2003 sales through September 30, which should be reassessed at their transfer value on the 2004-05 assessment roll.

Increases in Assessed Value due to Resales

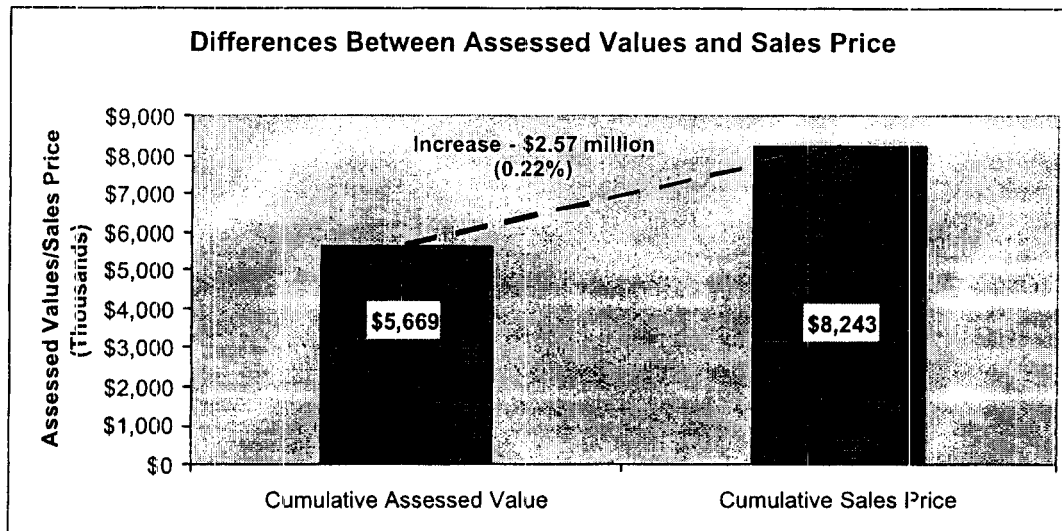
Table 4

Central City Redevelopment Project

Month	Properties Sold	Cumulative Sales Value	Cumulative Presale Value	Increase / (Decrease)	Percentage
January-03	3	\$2,087,500	\$1,790,309	\$297,191	16.60%
February-03	1	1,300,000	875,673	424,327	48.46%
March-03	3	670,000	986,504	-316,504	-32.08%
April-03	0	0	0	0	0.00%
May-03	1	429,000	27,268	401,732	1473.27%
June-03	2	605,000	497,490	107,510	21.61%
July-03	2	623,000	468,566	154,434	32.96%
August-03	2	1,693,000	601,671	1,091,329	181.38%
September-03	1	835,000	421,091	413,909	98.29%
	15	\$8,242,500	\$5,668,572	\$2,573,928	45.41%

Total Projected increase in 2004-05 Secured Values due to Sales: \$2,573,928
 Total Project Area 2003-04 Secured Value: \$1,159,048,840
 Percentage increase in 2004-05 Values due to Sales: 0.22%

Sales information is derived from Metroskan, and is current through September, 2003.
 Information is deemed reliable, but is not guaranteed.



Resale activity is projected to increase fiscal year 2004-05 assessed values by approximately \$2.57 million. This projection is based on 9 months of calendar year 2003 resale activity that would be added to the 2004-05 roll. (Additional increases in assessed values could occur in fiscal year 2004-05, since RSG's projections are only based on the first nine months of resale activity.) This increase is not significant enough to increase the projected annual growth rate above the annual inflationary adjustment. It should be noted that this Report does not include supplemental roll revenues that may be generated by resale activity.

Assessment Appeals

Property owners that wish to dispute the value of their property may file an assessment appeal with the County Assessor. There are two types of assessment appeals, temporary value reductions provided through Proposition 8 appeals and permanent value reductions provided through base year appeals. In most cases, an assessment appeal is filed because the applicant (property owner) believes that present market conditions, such as residential home prices or decreased lease rates, cause the property to be worth less than its assessed value. These market-driven appeals are referred to as Proposition 8 appeals. Although these reductions are temporary, the County Assessor has indicated that assessed values reduced pursuant to Proposition 8 are not adjusted back to their original value until market conditions improve.

The second type of assessment appeal is Base Year appeals, wherein property owners challenge the original (basis) value of their property. Because a successful Base Year appeal could reduce the basis value used to compute future reassessments pursuant to Proposition 13, Base Year appeals can have a more sustainable effect on Project Area tax increment revenues as compared to Proposition 8 appeals.

Between 1999 and 2003, a total of 82 appeals were filed on Project Area parcels: 57 secured value appeals and 12 unsecured value appeals. Table 6 provides a summary of these appeals.

On average, 28.1% of the secured appeals and 44% of the unsecured appeals have been granted since January 1, 1999. Sixteen secured roll appeals have been successful, resulting in the removal of \$36.6 million (28.4% of the respective parcels' original roll values) of secured roll value since 1999. Eleven unsecured roll appeals have been successful since 1999, resulting in a total unsecured roll reduction of \$5.0 million (65% of the respective parcels' original roll values) over this timeframe.

Eighteen assessment appeals remain unresolved and are currently under review by the County Assessor. All of the appeals involve secured roll values. RSG analyzed the historic success rate of appeals and the percentage of granted reduction against potential reduction. Removing some appeals that request a 100% reduction in secured roll assessed value, the total pending reduction amount is \$83.2 million. Historically, the average reduction granted on approved

secured value appeals is 58.18% of the requested reduction. Applying this percentage to the pending amount results in a projected reduction of \$48.4 million (3.48% of the 2003-04 total assessed value). Five of the pending appeals are for properties owned by top twenty taxpayers. RSG assumed that the potential loss in assessed value will be offset by the increase in assessed value due to new development, as shown in the following section. Therefore, RSG did not include any loss due to assessment appeals in Table 10.

The County's database does not distinguish Proposition 8 appeals from Base Year appeals, however, County officials opined that the vast majority of all filed appeals were one-time Proposition 8 appeals. As a result, many of the successful appeals would be reinstated shortly after their reduction is made as market values improve. However, in light of the absence of information on the nature of the appeals and to maintain a conservative forecast, RSG has assumed that the recently granted and/or open appeals are all Base Year appeals.

Assessment Appeal History **Table 5**

Central City Redevelopment: Project

Year	Granted	Denied/ Withdrawn	Pending	Total	AV of All Appeals (Portion of Project Area)	Granted Reductions (Portion of Project Area)	Average Reduction	Pending Reductions (Portion of Project Area)	Total Project Area Value
Secured Appeals									
2003	-	-	13	13	\$ 131,151,700 9.42%	\$ - 0.00%	\$ -	96,560,700 6.94%	\$ 1,391,742,685
2002	3	7	5	15	85,986,804 6.37%	1,707,702 0.13%	569,234	10,121,700 0.75%	1,349,154,319
2001	9	4	-	13	54,114,153 4.26%	12,577,400 0.99%	1,397,489	- 0.00%	1,269,585,358
2000	4	9	-	13	118,838,633 10.01%	22,319,901 1.88%	5,579,975	- 0.00%	1,188,763,795
1999	-	3	-	3	23,153,991 2.20%	- 0.00%	-	- 0.00%	1,053,343,676
	16	23	18	57	413,346,281	\$ 38,605,003	2,287,813	106,682,400	
Unsecured Appeals									
2003	9	3	-	12	\$ 7,496,429 0.54%	\$ 4,950,000 0.36%	\$ 550,000	- 0.00%	\$ 1,391,742,685
2002	-	4	-	4	1,508,720 0.11%	- 0.00%	-	- 0.00%	1,349,154,319
2001	-	4	-	4	7,897,295 0.62%	- 0.00%	-	- 0.00%	1,269,585,358
2000	1	2	-	3	2,254,740 0.19%	75,810 0.01%	75,810	- 0.00%	1,188,763,795
1999	1	1	-	2	214,420 0.02%	-5,910 0.00%	(5,910)	- 0.00%	1,053,343,676
	11	14	0	25	19,361,604	\$ 5,019,800	456,353	-	
All Appeals									
2003	9	3	13	25	\$ 138,638,129 9.96%	\$ 4,950,000 0.36%	\$ 550,000	96,560,700 6.94%	\$ 1,391,742,685
2002	3	11	5	19	87,495,524 6.49%	1,707,702 0.13%	569,234	10,121,700 0.75%	1,349,154,319
2001	9	8	-	17	62,011,448 4.88%	12,577,400 0.99%	1,397,489	- 0.00%	1,269,585,358
2000	5	11	-	16	121,194,373 10.19%	22,395,711 1.88%	4,479,142	- 0.00%	1,188,763,795
1999	1	4	-	5	23,368,411 2.22%	(5,910) 0.00%	(5,910)	- 0.00%	1,053,343,676
	27	37	18	82	432,707,885	\$ 41,824,903	1,541,663	106,682,100	

Source: Santa Barbara County Clerk of the Board of Supervisors

Changes in Value Caused by New Construction

RSG also analyzed the impact of new construction in the Project Area on projected tax increment revenues. Table 6 presents a summary of Project Area building permit activity, which shows that new construction between January and September of 2003 generated a total permit value of \$43.5 million. The Assessor should reassess the corresponding parcels to capture this new construction value on the 2004-05 assessment roll. Historically, the assessed values captured by the assessor have been much higher than the permit values. However, due to the potential loss of \$48.4 million due to assessment appeals (see the previous section), RSG did not include any increase in assessed value due to new construction in the tax increment projections in Table 10.

New Construction Activity

Table 6

Central City Redevelopment Project

Site Address	Description	Issue Date	Permit Value
622 Anacapa St.	New Mixed Use Buildings	8/12/2003	\$3,000,000
336 W. Cabrillo Blvd.	Building Renovation	10/16/2002	\$500,000
816 Cacique St.	Building Addition	4/22/2002	\$900,000
18 E. Canon Perdido St.	Interior Tenant Improvement	4/14/2003	\$160,000
101 W. Canon Perdido St.	Building Renovation	2/12/2003	\$600,000
101 W. Canon Perdido St.	Building Renovation	9/22/2003	\$500,000
31 W. Carrillo St.	New Hotel	8/1/2003	\$17,000,000
22 Castillo St.	Building Addition	9/26/2003	\$250,000
630 Chapala St.	Building Renovation	6/11/2002	\$504,000
215 W. Haley St.	New SFR	2/12/2002	\$154,360
215 W. Haley St.	New SFR	2/12/2002	\$134,045
417 Ruth Ave.	New SFR	5/13/2003	\$140,000
1219 State St.	Building Renovation	7/1/2003	\$85,000
209 State St.	Building Renovation	3/5/2002	\$84,000
821 State St.	Interior Tenant Improvement	6/24/2003	\$150,000
821 State St.	Building Renovation	6/12/2003	\$150,000
134 E. Victoria St.	Building Renovation	8/11/2003	\$63,000
214 E. Yanonali St.	Lot Improvement	8/20/2002	\$114,480
1021 Anacapa St.	Interior Tenant Improvement	10/1/2003	\$750,000
104 W. Anapamu St.	Building Renovation	8/21/2002	\$68,300
30 W. Anapamu St.	Interior Tenant Improvement	4/18/2003	\$66,220
1215 Bath St.	New MFR	2/25/2002	\$233,600
830 Bath St.	Building Addition	5/24/2002	\$51,510
28 W. Cabrillo Blvd.	Building Addition	2/12/2003	\$1,275,000
28 W. Cabrillo Blvd.	Building Renovation	8/21/2002	\$95,000
1 N. Calle Cesar Chavez	Building Renovation	2/12/2002	\$300,000
1 N. Calle Cesar Chavez	Building Renovation	1/22/2002	\$250,000
26 S. Calle Cesar Chavez	Building Renovation	5/14/2002	\$125,000
26 S. Calle Cesar Chavez	Interior Tenant Improvement	1/24/2003	\$516,000
26 S. Calle Cesar Chavez	Interior Tenant Improvement	11/13/2002	\$100,000
33 E. Canon Perdido St.	Building Renovation	3/11/2003	\$175,000
101 W. Canon Perdido St.	Building Renovation	6/7/2002	\$350,000
12 E. Carrillo St.	Building Renovation	10/9/2002	\$175,000
1105 Chapala St.	Interior Tenant Improvement	8/2/2002	\$55,000
134 Chapala St.	Building Renovation	1/27/2003	\$61,798
524 Chapala St.	Building Renovation	3/18/2002	\$88,000
220 Cottage Grove Ave.	New SFR	3/29/2002	\$172,125
118 E. De La Guerra St.	Lot Improvement	3/8/2002	\$330,000
9 E. Figueroa	Building Renovation	3/10/2003	\$52,000
123 W. Gutierrez St.	Building Addition	6/6/2002	\$242,000
114 E. Haley St.	Building Renovation	1/31/2002	\$140,000
214 W. Haley St.	Building Addition	8/23/2002	\$52,020
35 W. Haley St.	Building Renovation	6/24/2002	\$62,500

122 Helena Ave.	Interior Tenant Improvement	5/14/2003	\$71,321
25 E. Mason St. 100	Interior Tenant Improvement	9/25/2002	\$130,000
211 W. Mason St.	Building Renovation	6/16/2003	\$67,815
232 Natoma Ave.	Building Renovation	11/15/2002	\$80,000
319 Paseo Nuevo	Interior Tenant Improvement	4/30/2002	\$79,304
703 Paseo Nuevo	Interior Tenant Improvement	1/31/2002	\$100,000
707 Paseo Nuevo	Building Renovation	4/16/2002	\$290,000
713 Paseo Nuevo	Interior Tenant Improvement	2/3/2003	\$65,000
809 Paseo Nuevo	Interior Tenant Improvement	10/31/2002	\$80,000
1216 State St.	Building Renovation	3/4/2003	\$60,000
434 State St.	Interior Tenant Improvement	11/27/2002	\$100,000
511 State St.	Interior Tenant Improvement	10/17/2002	\$200,000
533 State St.	Building Renovation	2/13/2002	\$150,000
631 State St. A	Building Renovation	6/11/2003	\$250,000
723 State St.	Building Renovation	3/12/2002	\$200,000
735 State St.	Building Renovation	4/4/2002	\$328,644
820 State St.	Building Renovation	7/24/2002	\$368,000
820 State St.	Interior Tenant Improvement	8/7/2002	\$1,226,247
820 State St.	Interior Tenant Improvement	9/4/2002	\$150,000
820 State St.	Interior Tenant Improvement	4/15/2003	\$200,000
930 State St.	Interior Tenant Improvement	4/10/2003	\$75,000
207-213 Bath St.	New MFR	8/5/2002	\$1,500,000
27 E. Cota St.	Interior Tenant Improvement	5/24/2002	\$75,000
130 Nopalitos Way	Building Renovation	1/14/2002	\$70,000
740 State St.	Building Renovation	3/15/2002	\$60,000
1227 De La Vina St.	Interior Tenant Improvement	12/10/2002	\$260,930
1227 De La Vina St.	New MFR	12/10/2002	\$630,000
214 E. Yanonali St.	New MFR	10/22/2002	\$5,436,859
36 E. Victoria St.	Interior Tenant Improvement	2/24/2002	\$400,000
414 De La Vina St.	New Mixed Use Buildings	11/8/2002	\$500,000
Total Permit Value:			\$43,479,078
Total Projected Increase in Secured Values due to Construction Activity			\$43,479,078
Total Project Area 2003-04 Secured Value			\$1,159,048,840
Percentage Increase in Secured Values due to Construction Activity			3.75%

Source: City of Santa Barbara

The total permit value of \$43.5 million represents 3.75% of the total secured assessed value of the Project Area.

Tax Increment Collection History

RSG's forecast of tax increment revenues accounts for the historical collection rate of the Agency's tax increment revenue. Based on an analysis of tax increment charges and actual collections reported by the County Auditor-

Controller, the Agency has collected between 104% and 105% of its tax increment charges over the past four years.

Like all other redevelopment agencies in the County, the Agency receives tax increment disbursements based on the amount of property tax payments, supplemental revenue, penalties and interest actually received each year. According to the County Auditor-Controller's office, actual tax increment receipts have been slightly more than total charges primarily due to midyear resales that generate additional supplemental roll property tax revenues. These factors generally have more than offset other Project Area revenues, including prior year collections, supplemental roll taxes, and unitary utility taxes.

Table 7 presents a summary of tax increment revenue collections for fiscal years 1998-99 through 2002-03.

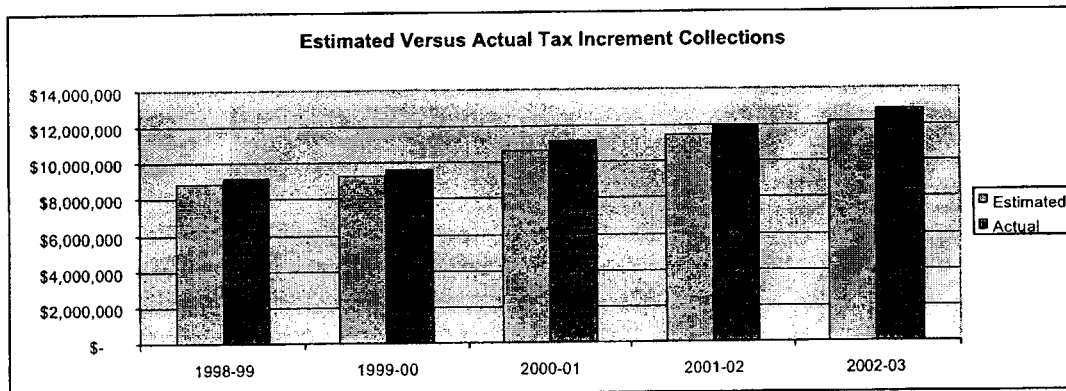
Table 7

Historic Tax Increment Collections Central City Redevelopment Project												
	1998-99		1999-00		2000-01		2001-02		2002-03			
Total Due 1/	\$	8,840,095	100%	\$	9,268,283	100%	\$	10,622,484	100%	\$	11,430,700	100%
Actual Receipts												
Secured 2/	\$	7,423,478	84%	\$	7,842,139	85%	\$	8,882,504	84%	\$	9,559,877	84%
Unsecured	\$	1,416,617	16%	\$	1,427,229	15%	\$	1,739,980	16%	\$	1,871,979	16%
Subtotal	\$	8,840,095	100%	\$	9,269,368	100%	\$	10,622,484	100%	\$	11,431,856	100%
Unitary	\$	244,642	3%	\$	249,239	3%	\$	257,735	2%	\$	282,198	2%
Supplemental	\$	333,553	4%	\$	305,866	3%	\$	502,030	5%	\$	356,913	3%
Interest	\$	30,859	0%	\$	12,565	0%	\$	10,518	0%	\$	18,727	0%
Total	\$	9,449,149	107%	\$	9,837,038	106%	\$	11,392,767	107%	\$	12,089,694	106%
Admin Fees	\$	(214,191)	-2%	\$	(212,915)	-2%	\$	(209,542)	-2%	\$	(237,106)	-2%
Total Receipts	\$	9,234,958	104%	\$	9,624,123	104%	\$	11,183,225	105%	\$	11,852,588	104%
										\$	12,850,918	105%

1/ Projection of tax increment, based on Total Incremental Assessed Value and annual tax levy rate per Santa Barbara County Auditor-Controller.

2/ Includes taxes from local secured and state nonunitary utility rolls including prior year collections.

Source: City of Santa Barbara



Tax Rates

The Agency currently receives tax increment revenue based on the 1.0% general tax levy rate; RSG has assumed that the Agency will continue to receive tax increment revenue at the minimum 1.0% levy in the projections. (By Law, any taxes in excess of the general levy imposed after adoption of the Project Area must be paid to the respective taxing entities.) According to information provided by the Santa Barbara County Auditor Controller's Office, historic tax levy rates for secured and unsecured property within the Project Area has been 1.0% over the past five years.

Unitary Utility Revenue

As provided by Assembly Bill 454, tax revenues from state-assessed unitary utility properties are apportioned separately from property taxes on the local roll. In the year 2002-03 the Agency received unitary tax revenue of \$301,149.

County Administrative Charges

The County charges an administrative fee for disbursing property tax increment revenues to redevelopment agencies. This fee is based on actual cost, prorated among redevelopment project areas based on their respective assessed values. In fiscal year 2002-03, the County charged the Agency \$226,247 in administrative charges. However, as shown in Table 7, supplemental revenues have historically offset these administrative charges. Because of the offsetting impact of supplemental and County administrative charges, RSG did not adjust projected tax increment revenues for county administrative charges.

Taxing Agency Agreements

Prior to January 1, 1994, the California Community Redevelopment Law, Health and Safety Code Section 33000 et seq. ("Law") permitted redevelopment agencies to enter into tax sharing agreements with affected taxing agencies. The Agency does not have any taxing entity or development commitments senior to debt service on the Bonds.

Low and Moderate Income Housing Fund Deposits

The Law requires the Agency to deposit 20% of the tax increment received by the Agency into a Low and Moderate Income Housing Fund for the purposes of maintaining and expanding the supply of housing affordable to very low, low, and moderate income households. Because the Agency is not proposing to pledge the Project's housing revenues to fund debt service and coverage requirements on the proposed Bonds, the projections exclude housing fund revenues.

Top Twenty Secured Taxpayers

Utilizing the County's 2003-04 Assessment Roll, the top twenty largest taxpayers within the Project Area have been identified and are listed on Table 8 below. The top twenty taxpayers encompass \$373,504,148 or 32.26% of the total Project Area assessed valuation.

As indicated in Table 8, the Agency owns five parcels that make up 6.80% of the total secured assessed value in the Project Area. These parcels make up the Paseo Nuevo Mall in downtown Santa Barbara. The Agency leases this property and the tenants pay possessory interest tax, which generates tax revenue from those properties.

FISCAL CONSULTANT REPORT
SANTA BARBARA CENTRAL CITY REDEVELOPMENT PROJECT

Top 20 Secured Taxpayers

Table 8

Central City Redevelopment Project

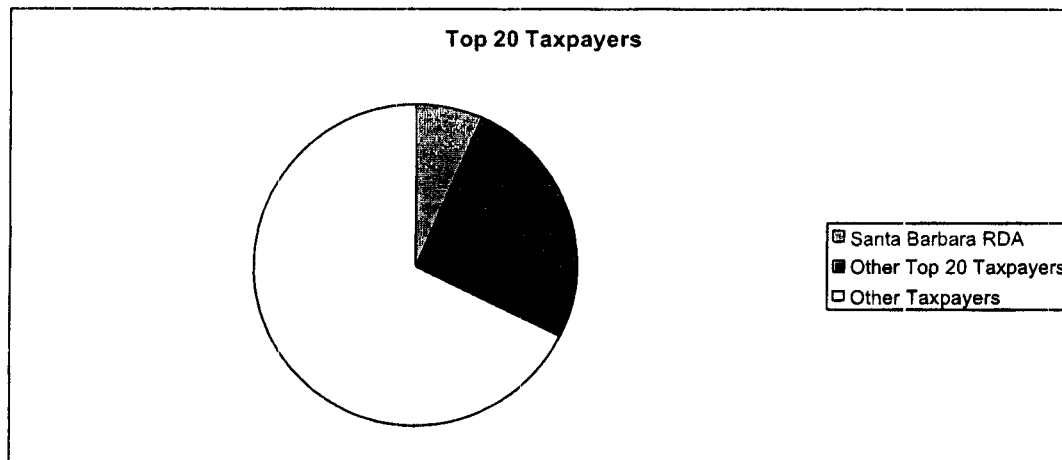
Owner	Parcels	Existing Land Use(s)	2003-04 Secured Assessed Value	
Santa Barbara RDA 1/	5	Retail, Department Store, Shopping Center	\$78,706,006	6.80%
Fess Parker Doubletree Hotel	1	Hotel	11,821,555	6.20%
ESJ Centers	3	Retail, Shopping Center	24,394,756	2.11%
Chapala Street Investors	1	Light Manufacturing, Office, Supermarket	23,076,174	1.99%
Ampersand Publishing	3	Light Manufacturing, Office, Parking Lot	19,091,822	1.65%
Wright Family Limited Partnership	18	Warehousing, Storage, Parking Lot	15,183,161	1.31%
Beach Motel Partners	2	Hotel	13,881,075	1.20%
1129 State Street	4	Retail, Office	13,717,442	1.18%
Sima E. Paseo LLC	4	Store, Office	12,828,805	1.11%
1221 Victoria Court LP	5	Store, Office, Restaurant	11,735,815	1.01%
Balboa Building Company LLC	1	Office Building	11,225,998	0.97%
Gerald A. Heiner	4	Hotel	11,077,419	0.96%
State Street Properties	3	Retail, Bank	11,046,575	0.95%
Granada Tower LLC	1	Office Building	9,675,720	0.84%
SA La Torre LLC	1	Office Building	8,199,953	0.71%
Santa Barbara Country Inn LLC	1	Hotel	7,997,013	0.69%
Atlantico Inc.	1	Store, Office	7,854,000	0.68%
Michelle Vasek	1	Condominiums	7,642,621	0.66%
Silvia A. Eck	2	Hotel, Parking Lot	7,610,106	0.66%
Howard Children's Gift Trust	4	Bank, Parking Lot	6,738,132	0.58%
	65		373,504,148	32.26%

Total Project Area 2003-04 Secured Value

\$1,157,799,198

1/ The Agency leases these properties, which generates possessory interest tax revenue.

Source: Metroscan, City of Santa Barbara



Five of the pending assessment appeals listed on Table 5 are for properties owned by someone listed on the top twenty list. The total at-risk value of these appeals is approximately \$10.1 million.

Education Revenue Augmentation Fund

RSG also analyzed the Education Revenue Augmentation Fund ("ERAF") payment that will be required of the Agency for 2003-04. The expected total statewide ERAF payment for 2003-04 is \$135 million. The California Redevelopment Association estimates that the Agency will owe \$704,104 for 2003-04.

Additional Parity Bonds Test

Per bond indentures, the Agency is required to test its capacity to issue additional bonds relevant to existing bonded indebtedness. As part of this test, pending assessment appeals for properties owned by top twenty taxpayers must be deducted from the total assessed value of the Project Area. The following table shows the calculations used to perform this test.

Additional Parity Bonds Test		Table 9
Central City Redevelopment Project		
2003-04 Assessed Value		
Secured Value	\$ 1,159,048,840	
Unsecured Value	<u>232,693,845</u>	
Subtotal	\$ 1,391,742,685	
Pending Top 20 Appeals	\$ (10,121,700)	
Adjusted 2003-04 Assessed Value	\$ 1,381,620,985	
1972-73 Base Year Assessed Value	<u>126,515,373</u>	
Incremental Assessed Value	\$ 1,255,105,612	
Projected Tax Increment Revenue	\$ 12,551,056	
Unitary Value 1/	301,149	
County Admin Fee 1/	<u>(226,247)</u>	
Total Projected Tax Increment Revenue	\$ 12,625,958	
Less 20% Housing Set-Aside	<u>2,525,192</u>	
Projected 2003-04 Non-housing Revenue	\$ 10,100,766	

1/ These values are projected based on 2002-03 values.

Tax Increment Revenue Projections

Table 10 presents the tax increment revenue projections for the Project based upon the assumptions described in this Report. In summary, the projections forecast the Project Area's assessed value, its consequential net tax increment revenue, and the apportionment of this revenue into the Agency's non-housing

and housing funds. The projections account from fiscal year 2003-04 to the duration of the Plan, which expires in 2022.

While RSG has taken precautions to assure the accuracy of the data used in the formulation of the projections, we cannot ensure that projected valuations will be realized. Future events and conditions that cannot be controlled or predicted with certainty may affect actual values presented in this Report.

Table 10

Tax Increment Projections

Central City Redevelopment Project

Fiscal Year	Growth Rate	Secured 1/	Projected Assessed Values		Gross Tax Increment		Housing Fund 20%	Redevelopment Fund 80%
			Unsecured 2/ 0.0%	Total	Incremental	Annual 1.00000% 3/		
1972-73		\$96,895,229	\$29,620,144	\$126,515,373		Through 2002-03:		
2003-04	Actual	1,159,048,840	232,693,845	1,391,742,685	\$1,265,227,312	\$12,652,273	\$2,530,455	\$10,121,818
2004-05	2.0%	1,182,229,817	232,693,845	1,414,923,662	1,288,408,289	12,884,083	2,576,817	10,307,266
2005-06	2.0%	1,205,874,413	232,693,845	1,438,568,258	1,312,052,885	13,120,529	2,624,106	10,496,423
2006-07	2.0%	1,229,991,901	232,693,845	1,462,685,746	1,336,170,373	13,361,704	2,672,341	10,689,363
2007-08	2.0%	1,254,591,739	232,693,845	1,487,285,584	1,360,770,211	13,607,702	2,721,540	10,886,162
2008-09	2.0%	1,279,683,574	232,693,845	1,512,377,419	1,385,862,046	13,858,620	2,771,724	11,086,896
2009-10	2.0%	1,305,277,246	232,693,845	1,537,971,091	1,411,455,718	14,114,557	2,822,911	11,291,646
2010-11	2.0%	1,331,382,791	232,693,845	1,564,076,636	1,437,561,263	14,375,613	2,875,123	11,500,490
2011-12	2.0%	1,358,010,446	232,693,845	1,590,704,291	1,464,188,918	14,641,889	2,928,378	11,713,511
2012-13	2.0%	1,385,170,655	232,693,845	1,617,864,500	1,491,349,127	14,913,491	2,982,698	11,930,793
2013-14	2.0%	1,412,874,068	232,693,845	1,645,567,913	1,519,052,540	15,190,525	3,038,105	12,152,420
2014-15	2.0%	1,441,131,550	232,693,845	1,673,825,395	1,547,310,022	15,473,100	3,094,620	12,378,480
2015-16	2.0%	1,469,954,181	232,693,845	1,702,648,026	1,576,132,653	15,761,327	3,152,265	12,609,061
2016-17	2.0%	1,499,353,264	232,693,845	1,732,047,109	1,605,531,736	16,055,317	3,211,063	12,844,254
2017-18	2.0%	1,529,340,330	232,693,845	1,762,034,175	1,635,518,802	16,355,188	3,271,038	13,084,150
2018-19	2.0%	1,559,927,136	232,693,845	1,792,620,981	1,666,105,608	16,661,056	3,332,211	13,328,845
2019-20	2.0%	1,591,125,679	232,693,845	1,823,819,524	1,697,304,151	16,973,042	3,394,608	13,578,433
2020-21	2.0%	1,622,948,193	232,693,845	1,855,642,038	1,729,126,665	17,291,267	3,458,253	13,833,013
2021-22	2.0%	1,655,407,156	232,693,845	1,888,101,001	1,761,585,628	17,615,856	3,523,171	14,092,685
						\$284,907,139	56,981,428	227,925,712

1/ Includes local secured and State utility values.

2/ Because unsecured values are not subject to annual inflationary increases, and are, by nature subject to unpredictable increases and decreases, these values were held constant.

3/ Cumulative since the \$431,130,000 tax increment limit went into effect on 1/15/87. The cumulative amount provided as of 2002-03 is net of the County's administration fee. The projections assume that this fee will be offset by utility, supplemental, and interest revenue.

APPENDIX C

SUMMARY OF INDENTURE

The following is a summary of certain provisions of the Indenture, (as defined in this summary) which are not described elsewhere in this Official Statement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms not defined in this Official Statement have the meanings set forth in the Indenture.

Definitions

"Additional Allowance" means, as of the date of calculation, the sum of the following:

(a) the amount of Tax Revenues which, as shown in the report of an Independent Redevelopment Consultant, are estimated to be receivable by the Agency in the next succeeding Fiscal Year as a result of increases in the assessed valuation of taxable property in the Project Area due to either (1) construction which has been completed but has not yet been reflected on the tax roll, or (2) transfer of ownership or any other interest in real property, which is not then reflected on the tax rolls; and

(b) the amount of Tax Revenues which, as shown in the report of an Independent Redevelopment Consultant, are estimated to be receivable by the Agency in the next succeeding Fiscal Year as a result of increases in the assessed valuation of taxable property in the Project Area due to inflation at an assumed annual inflation rate equal to the lesser of (1) the annual rate of inflation for the preceding 12-month period for which figures are available or (2) two percent.

For purposes of this definition, the term "increases in the assessed valuation" means the amount by which the assessed valuation of taxable property in the Project Area in the next succeeding Fiscal Year is estimated to exceed the assessed valuation of taxable property in the Project Area (as evidenced in a written document from an appropriate official of the County) as of the date on which such calculation is made.

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

"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 Outstanding Serial Bonds are retired as scheduled and that any Outstanding Term Bonds are redeemed from mandatory sinking fund payments as scheduled, (b) the principal amount of Outstanding Serial Bonds payable by their terms in such Bond Year, and (c) the principal amount of any Outstanding Term Bonds scheduled to be paid or redeemed from mandatory sinking fund payments in such Bond Year.

"Beneficial Owner (Series 2003A)" means, whenever used with respect to a Series 2003A Bond, the person whose name is recorded as the beneficial owner of such Series 2003A Bond, or a portion of such Series 2003A Bond, by a Participant on the records of such Participant or such person's subrogee.

"Bond Year" means any twelve-month period beginning on March 2 in any year and extending to the next succeeding March 1, both dates inclusive, except that the first Bond Year shall begin on January 1, 1991, and end on March 1, 1992.

“Bonds” means the Redevelopment Agency of the City of Santa Barbara, Central City Redevelopment Project, 1991 Tax Allocation Refunding Bonds, and, if the context requires, any Parity Debt, authorized by and at any time Outstanding pursuant to the Indenture and any Supplemental Indenture.

“Business Day” means a day of the year on which banks in Los Angeles, California, or in New York, New York, are not required or permitted to be closed and on which The New York Stock Exchange is not closed.

“Chairman” means the Chairman of the Agency appointed pursuant to Section 33113 of the California Health and Safety Code, or other duty appointed officer of the Agency authorized by the Agency by resolution or by-law to perform the functions of the chairman in the event of the chairman’s absence or disqualification.

“Closing Date” means December 18, 2003.

“Continuing Disclosure Agreement (Series 2003A)” means the Continuing Disclosure Agreement, dated as of December 18, 2003, by and between the Agency and the Trustee, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

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

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

“County” means Santa Barbara County, a county duly organized and existing under the laws of the State.

“Debt Service” means the scheduled amount of interest and amortization of principal payable on the Bonds and on any Parity Debt during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

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

“Escrow Agent” means BNY Western Trust Company, as escrow agent under the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement dated as of December 18, 2003 between the Agency and the Escrow Agent.

“Event of Default” means any of the events described in under “– Events of Default and Remedies of Owners – Events of Default and Acceleration of Maturities” below.

"Federal Securities" means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

"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 12-month period selected and designated by the Agency as its official fiscal year period.

"Fourth Supplement" means the Fourth Supplement to Indenture to Trust, dated as of November 1, 2003, by and between the Agency and BNY Western Trust Company, as Trustee.

"Gross Proceeds" means and includes all of the following amounts:

(a) original proceeds, namely, net amounts received by or for the Agency as a result of the sale of the Bonds, excluding original proceeds which become transferred proceeds (determined in accordance with applicable Tax Regulations) of obligations issued to refund the Bonds in whole or in part;

(b) investment proceeds, namely, amounts received at anytime by or for the Agency, such as interest and dividends, resulting from the investment of any original proceeds (as referenced in clause (a) above), or investment proceeds (as referenced in this clause (b)), in Nonpurpose Investments, increased by the amount of any profits and decreased (if necessary, below zero) by any losses on such investments, excluding investment proceeds which become transferred proceeds (determined in accordance with applicable Tax Regulations) of obligations issued to refund the Bonds in whole or in part;

(c) sinking fund proceeds, namely, amounts, other than original proceeds or investment proceeds (as referenced in clauses (a) and (b) above), which are held in the Special Fund, the Debt Service Fund, the Interest Account, the Principal Account and the Sinking Account and any other fund or account to the extent that the Agency reasonably expects to use such other fund or account to pay Debt Service;

(d) amounts in any fund established as a reasonably required reserve for the payment of Debt Service;

(e) Investment Property pledged as security for payment of Debt Service;

(f) amounts, other than as specified in this definition, used to pay Debt Service; and

(g) amounts received as a result of investing amounts described in this definition.

"Indenture" means the Indenture of Trust by and between the Agency and the Trustee, dated as of January 1, 1991, as amended and supplemented by the First Supplement, Second Supplement, Third

Supplement, and Fourth Supplement, and as the same may be amended or supplemented by any Supplemental Indenture entered into pursuant to the provisions of the Indenture after the Closing Date.

“Independent Accountant” means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by 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 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.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service”, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 65 Broad Street, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; S&P’s Corporation “Called Bond Record,” 55 Water Street, New York, New York 10040; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to the redemption of bonds as the Agency may designate in a Written Request of the Agency filed with the Trustee.

“Insurer (Series 2003A)” means Ambac Assurance Corporation, or any successor thereto or assignee thereof.

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

“Interest Payment Date” means March 1 and September 1 in each year, commencing March 1, 1991, so long as any of the Bonds remain Outstanding under the Indenture.

“Investment Property” means any security (as said term is defined in Section 165(g)(2)(A) or (B) of the Tax Code), obligation, annuity contract or investment-type property, excluding, however, obligations (other than specified private activity bonds as defined in Section 57(a)(5)(C) of the Tax Code) the interest on which is excludable from gross income, under Section 103 of the Tax Code, for federal income tax purposes.

"Law" means the Community Redevelopment Law of the State, constituting Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code, and the acts amendatory thereof and supplemental thereto.

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

"Maximum Annual Debt Service" means, as of the date of calculation, the largest amount obtained by totaling, for the current or any future Bond Year, the sum of (a) the interest payable on the Outstanding Bonds and any Parity Debt in such Bond Year, assuming that Outstanding Serial Bonds are retired as scheduled and that any Outstanding Term Bonds are redeemed from mandatory sinking fund payments as scheduled, (b) the principal amount of Outstanding Bonds and any Parity Debt payable by their terms in such Bond Year, and (c) the principal amount of any Outstanding Term Bonds scheduled to be redeemed from mandatory sinking fund payments in such Bond Year. If any proceeds of outstanding Parity Debt shall be on deposit in an escrow fund from which amounts may not be released to the Agency unless the amount of Tax Revenues for the most recent Fiscal Year (as evidenced in a written document from an appropriate official of the County), plus at the option of the Agency the Additional Allowance, at least equals 110 percent of the amount of Maximum Annual Debt Service which would result if the amount on deposit in such escrow fund were to be released to the Agency from such escrow fund in accordance with the terms of the related Supplemental Indenture, then for purposes of calculating Maximum Annual Debt Service, the Annual Debt Service on such Parity Debt shall be determined as if the amounts then on deposit in the escrow fund were withdrawn therefrom and applied to pay or redeem such Parity Debt in accordance with the terms of the related Supplemental Indenture.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Series 1993 Bonds" means the series of Bonds issued under the Indenture and designated the "Redevelopment Agency of the City of Santa Barbara, Central City Redevelopment Project, 1993 Tax Allocation Bonds."

"Series 1995 Bonds" means the series of Bonds issued under the Indenture and designated the "Redevelopment Agency of the City of Santa Barbara Central City Redevelopment Project 1995 Tax Allocation Refunding Bonds, Senior Series A."

"1995 Subordinate Bonds" means the initial series of subordinate bonds issued under the Subordinate Indenture and designated the "Redevelopment Agency of the City of Santa Barbara Central City Redevelopment Project 1995 Tax Allocation Refunding Bonds, Subordinate Series B."

"Series 2001 Bonds" means the series of Bonds issued under the Indenture and designated the "Redevelopment Agency of the City of Santa Barbara, Central City Redevelopment Project, 2001 Tax Allocation Bonds."

"Nonpurpose Investment" means any Investment Property which is acquired with Gross Proceeds and is not acquired in order to carry out the governmental purpose of the Bonds.

"Outstanding", when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture relating to disqualified Bonds) 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 provisions of the Indenture relating to defeasance; 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 hereto.

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

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

“Participant” or **“Participants”** means those entities which are recognized as Participants by DTC.

“Participating Underwriter (Series 2003A)” has the meaning ascribed “Participating Underwriter” in the Continuing Disclosure Agreement (Series 2003A).

“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:

- (a) Federal Securities;
- (b) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Farm Credit System Financial Assistance Corporation
 - Farmers Home Administration
 - General Services Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - Government National Mortgage Association (GNMA)
 - U.S. Department of Housing & Urban Development (PHA's)
 - Federal Housing Administration;
- (c) senior debt obligations rated “AAA” by S&P and “AAA” by Moody's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Senior debt obligations of other Government Sponsored Agencies approved by AMBAC Indemnity;
- (d) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

- (e) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;
- (f) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
- (g) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or
 - (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (g)(A) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and option premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (h) other forms of investments (including repurchase agreements) approved in writing by AMBAC Indemnity with notice to S&P.

"Plan Limit" means the limitation contained in the Redevelopment Plan on the number of dollars of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, as such limitation is prescribed by Section 33333.2 of the Law.

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

"Private Business Use" means use directly or indirectly in a trade or business carried on by a natural person or in any activity carried on by a person other than a natural person, excluding use by a governmental unit and use by any person as a member of the general public.

"Proceeds" means the face amount of the Bonds, plus accrued interest and original issue premium, if any, less original issue discount, if any.

"Project" or "Redevelopment Project" means the undertaking of the Agency pursuant to the Redevelopment Plan and the Law for the redevelopment of the Project Area.

“Project Area” means the territory within the Redevelopment Project as described in the Redevelopment Plan.

“Purchase Price”, for the purpose of computation of the Yield of the Bonds, has the same meaning as the term “Issue price” in Sections 1273(b) and 1274 of the Tax Code, and, in general, means the initial offering price to the public (not including bond houses and brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Bonds are sold or, if the Bonds are privately placed, the price paid by the first buyer of the Bonds or the acquisition cost of such first buyer. The term “Purchase Price,” for the purpose of computation of the Yield of Nonpurpose Investments, means the fair market value of the Nonpurpose Investments on the date of use of Gross Proceeds for acquisition thereof, or if later, on the date that Investment Property constituting a Nonpurpose Investment becomes a Nonpurpose Investment of the Bonds.

“Rating Category” means, with respect to any Permitted Investment, one or more of the generic categories of rating by Moody’s or S&P applicable to such Permitted Investment, without regard to any refinement or graduation of such rating category by a plus or minus sign or a numeral.

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

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

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

“Redevelopment Plan” means the redevelopment plan for the project designated as the “Central City Redevelopment Project” approved by Ordinance No. 3566, enacted by the City Council of the City of Santa Barbara on November 14, 1972, as amended by Ordinance No. 3923, enacted by the City Council of the City of Santa Barbara on August 30, 1977, and as most recently amended by Ordinance No. 5089, enacted by the City Council of the City of Santa Barbara on January 12, 1999, together with any amendments thereof heretofore or hereafter duly enacted pursuant to the Law.

“Redevelopment Project Fund (Series 2003A)” means the fund by that name held by the Trustee established pursuant to the Indenture.

“Registration Books” means for the registration and transfer of ownership of the Bonds.

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

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

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

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

“Representation Letter (Series 2003A)” means the Letter of Representations from the Agency to DTC, or any successor securities depository for the Series 2003A Bonds, in which the Agency makes certain representations with respect to the Series 2003A Bonds, the payment thereof and delivery of notices with respect thereto.

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

“Reserve Account Requirement” means, as of any calculation date, an amount equal to the lesser of (i) ten percent of the proceeds (within the meaning of Section 148 of the Tax Code) of that portion of each Series of Bonds Outstanding with respect to which Annual Debt Service is calculated, or (ii) Maximum Annual Debt Service on all Outstanding Bonds.

“S&P” means Standard & Poor’s Corporation, its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Marcket Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Agency may designate in a Written Request of the Agency delivered to the Trustee.

“Serial Bonds” means all Bonds and Parity Debt other than the Term Bonds.

“Series 2003A Bonds” means the Redevelopment Agency of the City of Santa Barbara Central City Redevelopment Project Tax Allocation Bonds, Series 2003A, issued under the Indenture.

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

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

“State” means the State of California.

“Subordinate Debt” means any loans, advances or indebtedness issued or incurred by the Agency pursuant to 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.

“Subordinate Indenture” means the Subordinate Indenture of Trust dated as of December 1, 1995 between the Agency and BNY Western Trust Company, as trustee.

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

“Tax Certificate” means, for each series of Bonds (other than any series of Bonds exempt from the requirements of Section 148 of the Code, relating to arbitrage rebate), the Tax Certificate dated the date of the original delivery of each such series of Bonds, as each such certificate may from time to time be modified or supplemented in accordance with the terms thereof.

“Tax Code” means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a provision of the Tax Code shall be deemed to include the applicable Tax Regulations promulgated with respect to such provision.

“Tax Regulations” means temporary and permanent regulations promulgated under Section 103 and all related provisions of the Tax Code.

“Tax Revenues” means (a) all taxes pledged and annually allocated within the Plan Limit, 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, (b) 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 (but excluding any subvention paid to the Agency pursuant to Section 16110 et seq. of the California Government Code), and (c) 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 allocable to any Parity Debt (including applicable reserves and financing costs) issued to finance amounts to be 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. “Tax Revenues” excludes all other amounts of such taxes (if any) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.2 of the Law for increasing and improving the supply of low and moderate income housing.

“Term Bonds” means any Parity Debt subject to mandatory sinking fund redemption pursuant to any Supplemental Indenture.

“Third Supplement” means the Third Supplement to Indenture of Trust, dated as of July 1, 2001, by and between the Agency and BNY Western Trust Company, as Trustee.

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

“Yield” means that yield which, when used in computing the present worth of all payments of principal and interest (or other payments in the case of Nonpurpose Investments which require payments in a form not characterized as principal and interest) on a Nonpurpose Investment or on the Bonds, produces an amount equal to the Purchase Price of such Nonpurpose Investment or the Bonds, all computed as prescribed in the Tax Code.

Deposit and Application of Proceeds of Bonds; Parity Debt

Issuance of Parity Debt. In addition to the 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 and Trustee. 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 estimated to be received for the then current Fiscal Year based on the most recent assessed valuation of property in the Project Area as certified by an appropriate official of the County shall be at least equal to 125% of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding immediately following the issuance of such Parity Debt. In addition, the Tax Revenues estimated to be received for the then current Fiscal Year based on the most recent assessed valuation of property in the Project Area certified by an appropriate official of the County shall be at least equal to 110% of Maximum Annual Debt Service on all Bonds and Parity Debt and on all Subordinate Debt which will be outstanding immediately following the issuance of such Parity Debt. In the event such Parity Debt is to be issued solely for the purpose of refunding and retiring any Outstanding Bonds or Parity Debt or any outstanding Subordinate Debt, interest and principal payments on the outstanding Bonds, Parity Debt or Subordinate Debt to be so refunded and retired from the proceeds of such Parity Debt being issued shall be excluded from the foregoing computations of Maximum Annual Debt Service. Nothing contained in the Indenture shall limit the issuance of any tax allocation bonds of the Agency payable from Tax Revenues and secured by a lien and charge on Tax Revenues if, after the issuance and delivery of such tax allocation bonds, none of the Bonds, Parity Debt or Subordinate Debt theretofore issued under the Indenture or under the Subordinate Indenture will be outstanding.

Solely for purposes of (b), "Tax Revenues" shall be reduced by the following amounts:

(i) the amount of subventions paid by the State or any other amount appropriated by the State for the Agency;

(ii) unless the Teeter Plan, or other plan by which the County remits 100% of the Tax Revenues regardless of delinquencies, is currently in effect and the County has made no announcement that such plan will be discontinued, the amount derived by applying the average percentage by which the actual tax collections in the Project Area are less than the amount of the secured tax levy in the Project Area for the immediately preceding five fiscal years;

(iii) the amount by which Tax Revenues would decrease if all pending assessment appeals by the top 20 taxpayers within the Project Area were to be determined in favor of such property owners in the full amount requested in such appeals, based on the most recent information available from the Office of the County Assessor; and

(iv) the amount of Tax Revenues raised from tax rates levied in excess of 1.00%.

(c) The Supplemental Indenture providing for the issuance of such Parity Debt shall provide that interest thereon shall be payable on March 1 and September 1, and principal thereof shall be payable on March 1 in any year in which principal is payable;

(d) The Supplemental Indenture providing for the issuance of such Parity Debt may provide for the establishment of separate funds and accounts;

(e) The aggregate amount of the principal of and interest on all Outstanding Bonds and Subordinate Debt coming due and payable following the issuance of such Parity Debt may not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Parity Debt; and

(f) The Agency must deliver to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth in subsections (a), (b), (c), (d) and (e) of this Section have been satisfied.

Issuance of Subordinate Debt. In addition to the Bonds, the Agency may incur Subordinate Debt in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Subordinate 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) If, and to the extent, such Subordinate Debt is payable from Tax Revenues within the then existing limitation on the amount of Tax Revenues allocable and payable to the Agency under the Redevelopment Plan, then the aggregate amount of the principal of and interest to accrue on all Outstanding Bonds and Subordinate Debt coming due and payable following the issuance of such Subordinate Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Subordinate Debt; and

(c) The Agency shall deliver to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Subordinate Debt set forth in (a) and (b) above have been satisfied.

Security of Bonds; Flow of Funds

Security of Bonds; Equal Security. Except as provided in the provisions of the Indenture relating to the deposit of Tax Revenues in the Special Fund and compensation and indemnification of the Trustee, the Bonds shall be equally secured by a first pledge of and lien on all of the Tax Revenues and a first and exclusive pledge of and lien upon all of the moneys in the Special Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Redemption Account and the Reserve Account without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

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

Special Fund; Deposit of Tax Revenues. There is established a special fund to be known as the "Special Fund," which shall be held by the Agency. The Agency shall deposit all of the Tax Revenues received in any Bond Year in the Special Fund promptly upon receipt thereof by the Agency, until such time 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 Redemption Account and the Reserve Account in such Bond Year pursuant to the Indenture and for deposit in such Bond Year in the funds and accounts established with respect to Parity Debt, as provided in 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 pursuant to the preceding paragraph shall be released from the pledge and lien under the Indenture for the security of the Bonds and may be applied by the Agency for any lawful purposes of the Agency, including but not limited to the payment of Subordinate Debt, or the payment of any amounts due and owing to the United States of America pursuant to the provisions of the Indenture described under the caption "Compliance with the Law; Low and Moderate Income Housing Fund" below. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indentures, 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 and in any Supplemental Indenture.

Transfer of Amounts to Trustee. Moneys in the Special Fund shall be transferred by the Agency to the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective accounts within the Debt Service Fund, in the following order of priority:

(a) Interest Account. On or before the Business Day preceding each Interest Payment Date, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. Subject to the provisions of the Indenture relating to compensation and indemnification of the Trustee, all moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. On or before the Business Day preceding March 1 in each year beginning March 1, 1991, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on Outstanding Serial Bonds and any maturing Term Bonds on the next March 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next March 1 on all Outstanding Serial Bonds and any maturing Term Bonds. Subject to the provisions of the Indenture relating to compensation and indemnification of the Trustee, all moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of Serial Bonds and maturing Term Bonds as it shall become due and payable.

(c) Sinking Account. On or before the Business Day preceding each March 1 on which any Outstanding Term Bonds are subject to mandatory sinking fund redemption, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds required to be redeemed on such March 1 pursuant to the applicable Supplemental Indenture. Subject to the provisions of the Indenture relating to compensation and indemnification of the Trustee, all moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Term Bonds as it shall become due and payable upon redemption pursuant to the applicable Indenture.

(d) Redemption Account. On or before the fifth Business Day preceding any Interest Payment Date on which Bonds are to be optionally redeemed, the Agency shall withdraw from the

Special Fund and transfer to the Trustee for deposit in the Redemption Account an amount required to pay the principal of and premium, if any, on the Bonds to be optionally redeemed on such Interest Payment Date. Subject to the provisions of the Indenture relating to compensation and indemnification of the Trustee, all moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be redeemed pursuant to the optional redemption provisions of the Indenture on the date set for such redemption.

(e) Reserve Account. On or before the Business Day preceding each Interest Payment Date, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Reserve Account an amount of money (or other authorized deposit of security, as contemplated by the following paragraph) necessary to bring the amount in the Reserve Account equal to the Reserve Account Requirement. No deposit need be made in the Reserve Account so long as there shall be on deposit therein an amount equal to the Reserve Account Requirement. All money in (or available to) the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account or the Sinking Account in such order, in the event of any deficiency at any time in any of such accounts, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds other than the Outstanding 1991 Bonds in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all Bonds then Outstanding other than Outstanding 1991 Bonds, 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 Account Requirement may, upon Written Request of the Agency, be withdrawn from the Reserve Account by the Trustee and transferred to the Agency.

Notwithstanding any provision of the Indenture to the contrary, all or any portion of the Reserve Account Requirement may be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with moneys on deposit in the Reserve Account, provide an aggregate amount equal to the Reserve Account Requirement; provided, that the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility must be rated in one of the two highest rating categories by Moody's or S&P at the time of delivery of such credit facility.

Deposit and Investment of Moneys in Funds. Moneys in the Special Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Redemption Account and the Reserve Account shall be invested by the Trustee in:

Permitted Investments specified in the Written Request of the Agency filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such Written Request of the Agency, the Trustee shall invest any such moneys in Permitted Investments described in clause (f) of the definition thereof. 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, valued as provided in the last paragraph of this section. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be deposited in the Interest Account. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture upon the Written Request of the Agency. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this section.

Moneys in the accounts within the Debt Service Fund will be invested only in obligations which will by their terms mature on such dates as to insure that before each Interest Payment Date there will be an amount available, from matured obligations and other moneys already in such fund, equal to the interest and principal payable on such date. Moneys in the Reserve Account shall be invested only in Permitted Investments maturing (or subject to optional tender or withdrawal without penalty) no later than seven years from the date of investment.

In computing the amount in any fund or account, Permitted Investments shall be valued at the market value thereof. With respect to all funds and accounts, valuation shall occur quarterly, on or before March 1, June 1, September 1 and December 1 of each year; provided, that the obligation to make up any shortfalls in the Reserve Account due to a change in valuation shall be effective only on the March 1 valuation date.

The value of any investments in any fund or account shall be calculated as follows:

- (a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;
- (b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
- (c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and
- (d) as to any investment not specified above, the value thereof established by prior agreement among the Agency, the Trustee and AMBAC Indemnity.

Other Covenants of the Agency

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

Limitation on Additional Indebtedness. The Agency covenants that, so long as the Bonds are Outstanding, the Agency may 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 Bonds, any Parity Debt and any Subordinate Debt.

Extension of Payment. The Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any Bond or claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding the Bonds or claims for interest or in any other manner. In case the maturity of any such Bond or claim for interest is

extended or funded, whether or not with the consent of the Agency, such Bond or claim for interest so extended or funded will be entitled, in case of 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 Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Payment of Claims. The Agency must promptly pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Tax Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing contained in the Indenture requires 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; Reporting Requirements. The Agency must 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 of Santa Barbara, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Tax Revenues and the Special Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection by the Trustee (but it shall have no duty or obligation to do so) and of the Owners of not less than ten percent in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The Agency will cause to be prepared and filed with the Trustee annually, within 180 days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Tax Revenues, all disbursements from the Special Fund and the financial condition of the Redevelopment Project, including the balances in all funds and accounts relating to the Redevelopment Project, as of the end of such Fiscal Year, which statements shall be accompanied by a Written Certificate of the Agency stating that the Agency is in compliance with its obligations under the Indenture. The Agency shall furnish a copy of the above-referenced Written Certificates and statements to any Owner upon reasonable request at the expense of such Owner.

Protection of Security and Rights of Owners. The Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the Closing Date, the Bonds will be incontestable by the Agency.

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

Taxation of Leased Property. All amounts derived by the Agency pursuant to Section 33673 of the Law with respect to the lease of property for redevelopment shall be treated as Tax Revenues for all purposes of the Indenture.

Disposition of Property. The Agency will not participate in the disposition of any land or real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on January 1, 1991) so that such disposition shall, when taken together with other such dispositions, aggregate more than ten percent of the land area or more than ten percent of the most recent assessed valuation of the

property in the Project Area unless such disposition is permitted as provided as follows: If the Agency proposes to participate in such a disposition, it shall thereupon 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 impaired by said proposed disposition, the Agency may thereafter make such disposition, with the consent of AMBAC Indemnity, which shall not be unreasonably withheld. If said Report concludes that such security will be materially impaired by said proposed disposition, the Agency shall disapprove said proposed disposition.

Maintenance of Tax Revenues. The Agency must comply with all requirements of the Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and appropriate officials of the State. The Agency shall not enter into any agreement with the County or any other governmental unit, which would have the effect of reducing the amount of Tax Revenues. Nothing in the Indenture is intended or shall be construed in any way to prohibit or impose any limitations on the entering into by the Agency of any such agreement, amendment or supplement which by its terms meets the requirements of the Agency for the issuance of Subordinate Debt.

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

Private Business Use Limitation. The Agency must assure that:

(a) not in excess of ten percent of the Proceeds of the Bonds is used for Private Business Use if, in addition, the payment of the principal of, or the interest on, more than ten percent of the Proceeds of the Bonds is (under the terms of the Bonds or any underlying arrangement) directly or indirectly, (1) secured by any interest in property, or payments in respect of property, used or to be used for a Private Business Use, or (2) to be derived from payments (whether or not to the Agency) in respect of property, or borrowed money, used or to be used for a Private Business Use; and

(b) in the event that in excess of five percent of the Proceeds of the Bonds is used for a Private Business Use, and, in addition, the payment of the principal of, or the interest on, more than five percent of the Proceeds of the Bonds is, (under the terms of the Bonds or any underlying arrangement) directly or indirectly, secured by any interest in property, or payments in respect of property, used or to be used for said Private Business Use or is to be derived from payments (whether or not to the Agency) in respect of property, or borrowed money, used or to be used for a Private Business Use, then, (1) said excess over said five percent of the Proceeds of the Bonds which is used for a Private Business Use shall be used for a Private Business Use related to a government use of such Proceeds and (2) each such Private Business Use over five percent of the Proceeds of the Bonds which is related to a government use of such Proceeds shall not exceed the amount of such Proceeds which is used for the government use of Proceeds to which such Private Business Use is related.

Private Loan Limitation. The Agency must assure that not in excess of the lesser of five percent of the Proceeds of the Bonds or \$5,000,000 is to be used, directly or indirectly, to make or finance loans (other than loans constituting Nonpurpose Investments and other than loans which enable the borrower to finance any governmental tax or assessment of general application for a specific essential governmental function) to persons other than state or local government units.

Compliance with the Tax Code. The Agency covenants in the Indenture to take any and all action and to refrain from taking such action which is necessary in order to comply with the Tax Code or amendments thereto in order to maintain the exclusion from federal gross income, pursuant to Section 103 of the Tax Code, of the interest on the Bonds paid by the Agency and received by the Owners of the Bonds.

Federal Guarantee Prohibition. The Agency may 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 Tax Code and applicable Tax Regulations.

Compliance with Rebate Requirements. The Agency must assure compliance with the requirements for rebate of excess investment earnings to the federal government in accordance with Section 148(f) of the Tax Code and applicable Tax Regulations.

Compliance with the Law: Low and Moderate Income Housing Fund.

(a) The Agency must 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 Project subject to either Section 33445 or Section 33679 of the Law.

(b) The Agency further covenants that it shall deposit or cause to be deposited in the Low and Moderate Income Housing Fund all amounts when, as and if required to be deposited therein pursuant to the Law and shall expend amounts deposited in the Low and Moderate Income Housing Fund, including, without limitation, proceeds of any Parity Debt deposited therein, solely in accordance with Section 333342 of the Law.

(c) The Agency further covenants that if, for any reason, it deposits less than all amounts required to be deposited in the Low and Moderate Income Housing Fund when, as and if required to be deposited therein pursuant to the Law, it shall comply with the provisions of Section 33334.6(g) of the Law.

Management and Operations of Properties. The Agency will manage and operate all properties owned by the Agency and comprising any part of the Project in a sound and businesslike manner, and will keep such properties insured at all times in conformity with sound business practice.

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

Continuing Disclosure. The Agency and the Trustee covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement (Series 2003A). Notwithstanding any other provision of the Indenture, failure of the Agency or the Trustee to comply with the Continuing Disclosure Agreement (Series 2003A) shall not be considered an Event of Default; however, the Trustee may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Series 2003A Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee) or any Owner or Beneficial Owner (Series 2003A) may take such actions as may be necessary and appropriate, including seeking mandate or specific

performance by court order, to cause the Agency or the Trustee, as the case may be, to comply with its obligations under this paragraph.

Annual Accounting of Gross Tax Increment. The Agency will cause to be prepared and filed with the Trustee annually, within 180 days after the close of each Fiscal Year, so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Gross Tax Increment (defined as all monies allocated within the Plan Limit, including amounts required to be deposited into the Low and Moderate Income Housing Fund, payments due under any tax sharing agreements and payments received as subventions or payments in lieu of taxes), all disbursements from the Special Fund and the financial condition of Redevelopment Project, including the balances in all funds and accounts relating to the Redevelopment Project, as of the end of such Fiscal Year, and will prepare or cause to be prepared and filed with the Trustee and AMBAC Indemnity a pro forma statement demonstrating the future availability of sufficient tax increment revenues to pay timely within the existing limitation on the amount of Gross Tax Increment allocable and payable to the Agency under the Redevelopment Plan (the "Tax Increment Limitation") (i) the 1995 Bonds and all Parity Debt and Subordinate Debt, (ii) the amount payable in the then current Fiscal Year included within the Tax Increment Limitation which are required by Section 33334.2 of the Redevelopment Law to be deposited in the Agency's Low and Moderate Income Housing Fund (the "Set-Aside Requirement"), and (iii) all amounts included within the Tax Increment Limitation which are payable pursuant to the pass-through agreements until the final maturity of the 1995 Bonds, Parity Debt or Subordinate Debt, whichever is later (the "Pass-Through Payments"), which statements and pro forma statements shall be accompanied by a written certificate of the Agency stating that the Agency is in compliance with its obligations under the Indenture.

The pro forma statement shall be prepared on or before September 1 of each year or as soon thereafter as practicable, and shall set forth:

- (1) The difference between the Tax Increment Limitation less the total amount of Gross Tax Increment theretofore allocated to the Agency from and after the Fiscal Year in which a limitation on the allocation of tax increment revenues was established (the "Remaining Limitation Amount"); and
- (2) The principal and interest remaining to be paid on the 1995 Bonds, the Parity Debt and the Subordinate Debt, plus the Set-Aside Requirement and the Pass-Through Payments (collectively, the "Total Debt Service").

To the extent the Remaining Limitation Amount is equal to 105% or less than the Total Debt Service, the pro forma statement shall set forth the principal amount of the 1995 Bonds, Parity Debt or Subordinate Debt (to the nearest integral multiple of \$5,000), as applicable, that must be retired in order for the Remaining Limitation Amount to be at least equal to 105% of the Total Debt Service (the "Prepayment Amount"). In making this calculation, the Agency shall assume that it will prepay debt in the following order of priority (the "Prepayment Order"): (a) it shall prepay the 1995 Bonds and Parity Debt by allocating payment among the principal of the 1995 Bonds and applicable principal payments with respect to Parity Debt as the Agency shall designate, and (b) to the extent there are no longer any 1995 Bonds or Parity Debt Outstanding, prepay the Subordinate Debt pro rata by maturity and by lot within a maturity, in a manner which results in the pro forma schedule demonstrating that all remaining unpaid 1995 Bonds, Parity Debt and Subordinate Debt shall be paid from Gross Tax Increment in a timely manner. The Agency shall notify the Trustee of the Prepayment Amount, if any, applicable to the 1995 Bonds and all Parity Debt as soon as possible after completion of the pro forma statement and shall pay any Prepayment Amount from Tax Revenues after (1) having on deposit in the Special Fund an amount equal to the principal and interest due and payable in the next succeeding Bond Year on the 1995

Bonds and all Parity Debt and (2) having on deposit an amount sufficient to pay principal and interest in the next succeeding Bond Year on the Subordinate Debt. At the time the Remaining Limitation Amount is determined to be 105% or less than the Total Debt Service, the Agency shall transfer any Prepayment Amount to the Trustee for deposit in the Redemption Account or any other account with respect to Parity Debt, as applicable, and use such monies to redeem, prepay or defease 1995 Bonds and Parity Debt, as applicable. Notwithstanding the above, if prior to any such redemption, prepayment or defeasance, a subsequent annual pro forma statement indicates that future Gross Tax Increment will be 105% or more of the Total Debt Service in each year such debt service is payable, the Agency may authorize the Trustee to transfer such Tax Revenues from the Redemption Account to the Special Fund.

Series 2003A Bonds Tax Covenants. (a) The Agency shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Series 2001 A Bonds under Section 103 of the Tax Code. Without limiting the generality of the foregoing, the Agency shall comply with the requirements of the Tax Certificate relating to the Series 2001 A Bonds, which is incorporated in the Indenture as if fully set forth therein. This covenant shall survive payment in full or defeasance of the Series 2003A Bonds.

(b) In the event that at any time the Agency is of the opinion that for these purposes it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the Agency shall instruct the Trustee in writing as to the specific investment to be made in order to so restrict or limit the yield, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding the above, if the Agency shall provide to the Trustee an opinion of nationally recognized bond counsel to the effect that any specified action required above is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2003A Bonds, the Trustee may conclusively rely on such opinion in complying with such requirements and the requirements of the Tax Certificate relating to the Series 2003A Bonds, and the covenants under the Indenture shall be deemed to be modified to that extent.

Insurance Policy (Series 2003A)

Any provision of the Indenture expressly recognizing or granting rights in or to the Insurer (Series 2003A) may not be amended in any manner, during such time as the Insurance Policy (Series 2003A) is outstanding, which affects the rights of the Insurer (Series 2003A) under the Indenture without the prior written consent of the Insurer (Series 2003A).

For all purposes of the Indenture (including, but not limited to, (1) the giving of consents to amendments to the Indenture and (2) the control and direction of all rights and remedies upon the occurrence of an Event of Default), the Insurer (Series 2003A) is deemed to be the sole Owner of the Series 2003A Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Insurance Policy (Series 2003A).

In determining whether the rights of the Owners of the Series 2003A Bonds will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee will consider the effect on the Owners of the Series 2003A Bonds as if there were no Insurance Policy (Series 2003A).

Modification or Amendment of the Indenture

Amendment With Consent of Owners. The Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at anytime by a Supplemental Indenture which will become binding upon adoption, without consent of any Owners, to the extent permitted bylaw and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Agency contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved therein 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 shall not materially adversely affect the interests of the Owners; or

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

(d) to amend any provision of the Indenture relating to the requirements of or compliance with the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any of the Bonds, in the opinion of nationally-recognized bond counsel.

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at anytime by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption 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, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

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

Endorsement or Replacement of Bonds After Amendment. After the effective date of any amendment or modification of the Indenture, the Agency may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the Agency, as to such amendment or modification and in that case upon demand of the Agency the Owners of such Bonds shall present such Bonds for that purpose at the Trust Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the Agency may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and, in that case upon demand of the

Agency, the Owners of the Bonds shall present such Bonds for exchange at the Trust Office of the Trustee, without cost to such Owners.

Amendment by Mutual Consent. The provisions of the Indenture will not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner, provided that due notation thereof is made on such Bond.

Reliance on Opinion of Counsel. The Trustee may request and rely on an opinion of counsel to the effect that all conditions precedent to the execution of any Supplemental Indenture have been complied with.

Events of Default and Remedies of Owners

Events of Default and Acceleration of Maturities. The following events will constitute Events of Default under the Indenture:

(a) if default shall be made 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 the 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 60 days following receipt by the Agency of written notice from the Trustee or any Owner of the occurrence of such default;

(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 shall approve a petition seeking reorganization under the federal bankruptcy laws or any other; and applicable law of the United States of America, or, it under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall 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; and

(d) if there has occurred and is continuing an event of default under the Subordinate Indenture, and as a result the principal of any Subordinate Debt, together with accrued interest thereon, is declared by the Subordinate Trustee to be due and payable immediately.

If an Event of Default has occurred and is continuing, the Trustee may, and if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) upon being indemnified to its satisfaction, 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 must give notice of such Event of Default to the Agency by telephone confirmed in writing. Such notice must also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (c) above the Trustee

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

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law) at the net effective rate then borne by the Outstanding Bonds, and the reasonable expenses of the Trustee, including but not limited to attorneys fees, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

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

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture, including reasonable compensation to its agents, attorneys and counsel; and

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

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; *provided, however*, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds

under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Owners Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

Non-waiver. Nothing in the Indenture or in the Bonds, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay from the Tax Revenues and other amounts pledged under the Indenture, the principal of and interest and redemption premium (if any) on the Bonds to the respective Owners on the respective Interest Payment Dates, as provided in the Indenture, or affect or impair the right of action, which is also absolute and unconditional, of the Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

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

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

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed (and the successive respective Owners by taking and holding the Bonds or Parity Debt, as applicable, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners

for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, provided the Trustee shall have no duty or obligation to enforce any such right or remedy if it has not been indemnified to its satisfaction from any expense including, but not limited to reasonable fees and expenses of its attorneys.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Owners in the Indenture is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Discharge of Indenture

Defeasance. The Agency may pay and discharge the entire indebtedness on all Bonds and Parity Debt or any portion thereof in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds or Parity Debt, as and when the same become due and payable;

(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, is fully sufficient to pay such Bonds or Parity Debt, including all principal, interest and redemption premiums (if any), or;

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

and if such Bonds or Parity Debt are to be redeemed prior to the maturity thereof, by causing notice of such redemption to have been given pursuant to the Indenture or provision satisfactory to the Trustee to have been made for the giving of such notice. At the election of the Agency, and notwithstanding that any Bonds or Parity Debt shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Agency under the Indenture with respect to such Bonds or Parity Debt shall cease and terminate, and such Bonds or Parity Debt shall no longer be considered Outstanding under the Indenture; provided that the following obligations shall survive the discharge of all Bonds and Parity Debt: (a) the obligations of the Agency under the headings of the Indenture entitled "Compliance with Rebate Requirements;" and "Rebate Fund," (b) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, and (c) the obligation of the Agency to pay or cause to be paid to the Trustee all fees, expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee. Any funds thereafter held by the Trustee, which are not required for said purpose, shall be paid over to the Agency.

Miscellaneous

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

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

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned or held by or for the account of the Agency or the City of Santa Barbara (but excluding Bonds held in any employees' retirement fund) will be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided, however, that for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned or held shall be disregarded.

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

Unclaimed Moneys. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed on the date 90 days prior to the then applicable escheat provision of State law, shall, on such date, be repaid to the Agency free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Agency and the Trustee indemnifying the Agency and the Trustee with respect to claims of Owners of Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Agency as aforesaid, the Trustee may (at the cost and request of the Agency) first mail to the Owners to whom such amounts have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the amounts so payable and with respect to the provisions relating to the repayment to the Agency of the moneys held for the payment thereof.

APPENDIX D

THE CITY OF SANTA BARBARA

The following information is presented as general background data. The Series 2003A Bonds are payable solely from Tax Revenues as described herein. The taxing power of the City, the State, or any political subdivision thereof is not pledged to pay debt service on the Series 2003A Bonds. See the section entitled "SECURITY FOR THE SERIES 2003A BONDS" in the Official Statement.

General

The City of Santa Barbara, County Seat of Santa Barbara County, is located on U.S. Highway 101, the main route connecting Los Angeles and San Francisco, some 100 miles northwest of the Metropolitan Los Angeles Area. Incorporated in 1850, the City was reincorporated in 1899. Santa Barbara is the largest city in Santa Barbara County (the "County") in terms of population, with a population of 94,200 as of January 1, 2001 according to the California Department of Finance. The City encompasses a total of 18.62 square miles within its corporate limits.

Santa Barbara is a Charter City, with the present Charter adopted in May, 1967. The City is governed by a six-member City Council and a Mayor, elected at large. The City employs a City Administrator, appointed by the full City Council.

The City provides police protection, fire protection, animal control, emergency medical aid, building safety regulation and inspection, street lighting, beautification, sanitation, land use planning and zoning, housing and community services, maintenance and improvement of streets and related structures, traffic safety maintenance and improvement and a full range of recreational and cultural programs for citizen participation. The City owns and operates its own sewage treatment plant as well as the Water System.

A total of 1,089 full-time City positions are authorized, including 230 in the Police Department and 113 in the Fire Department.

Mayor and City Council

<u>Mayor</u>	<u>Term Expires</u>
Marty Blum, Mayor	2006
<u>City Council</u>	
Dan B. Secord, M.D., Mayor Pro Tempore	2006
Harold Fairly, Councilmember	2004
Iya G. Falcone, Councilmember	2006
Babatunde Fodayemi, Councilmember	2004
Gregg A. Hart, Councilmember	2004
Roger L. Horton, Councilmember	2006
<u>City Administrator</u>	
James L. Armstrong	

On Tuesday, November 4, 2003, Das Williams, Helene Schneider, and Brian Barnwell were elected as members of the City Council. On January 6, 2004, they will begin their terms in office. They will replace Harold Fairly, Babtunde Fodayemi, and Gregg A. Hart.

Population

The following table presents population statistics for the City over the past five years.

CITY OF SANTA BARBARA POPULATION For Calendar Years 1999 through 2003

<u>Year</u> <u>(As of January 1)</u>	<u>Population</u>
1999	91,000
2000	89,600
2001	90,100
2002	90,300
2003	90,500

SOURCE: Figures for 1999, 2001, 2002, and 2003 are State Department of Finance estimates as of January 1. The 2000 totals are U.S. Census figures.

Land and Land Use

The City encompasses an area of approximately 12,000 acres, of which approximately 9,000 acres are developed. The City's terrain is relatively steep, varying in elevation from sea level to 1,000 feet. The water system is gravity fed with a series of pressure zones controlled by pressure regulating stations.

The land within the City's boundaries is almost completely developed. The City estimates that its population at the year 2010 will be approximately 95,000.

Education

The City is served by eight elementary schools and the Santa Barbara High School District operates four junior high schools and four senior high schools. A 43-acre site in the City serves as the campus for Santa Barbara City College, which offers preparatory courses for four year colleges as well as two year vocational-technical courses.

The University of California at Santa Barbara ("UCSB") was designated as one of the State's nine general campuses of the University of California in 1958. It is located approximately ten miles west of the City on an 815 acre campus. Academically, UCSB offers a College of Letters and Science, a College of Creative Studies, a College of Engineering and a Graduate division including a Graduate School of Education.

Employment

The civilian labor force in the City increased to an annual average of 53,350 in 2003, up from the 2002 average of 53,100. The following table summarizes the labor force, employment and unemployment figures over the past five years for the City, the State of California and the nation as a whole,

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Yearly Average for Calendar Years 1999 through 2003

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
<u>1999</u>				
City of Santa Barbara	51,350	49,670	1,680	3.3%
California.....	16,596,500	15,731,700	864,800	5.2%
<u>2000</u>				
City of Santa Barbara	52,090	50,470	1,620	3.1%
California.....	16,884,200	16,048,900	835,300	4.9%
<u>2001</u>				
City of Santa Barbara	52,420	50,870	1,550	3.0%
California.....	17,182,900	16,260,100	922,800	5.4%
<u>2002</u>				
City of Santa Barbara	53,100	51,200	1,900	3.6%
California.....	17,404,600	16,241,800	1,162,800	6.7%
<u>2003⁽¹⁾</u>				
City of Santa Barbara	53,350	51,780	1,570	2.9%
California.....	17,568,600	16,449,700	1,118,800	6.4%

⁽¹⁾ As of September 2003

SOURCE: California Employment Development Department

The largest employers located within the City of Santa Barbara are shown in the following table:

CITY OF SANTA BARBARA
Eight Largest Employers — South Santa Barbara County
As of April 1, 2003

<u>Employer</u>	<u>Activity</u>	<u>Number Employed</u>
County of Santa Barbara	Government	4,141
Santa Barbara Cottage Hospital	Hospital	1,927
Santa Barbara High School District	Education	1,708
Santa Barbara Community College	Education	1,700
Sansum-Santa Barbara Medical Foundation Clinic	Hospital	1,150
Santa Barbara Elementary Schools	Education	1,132
City of Santa Barbara	Government	1,089
Santa Barbara Bank & Trust	Bank	820

SOURCE: Santa Barbara Chamber of Commerce.

Income

The median household effective buying income in the City increased 22.5% percent from \$34,700 in 1999 to \$42,494 in 2003. The following chart shows the yearly median household effective buying income and the total

effective buying income for the City, the County, the State of California and the United States from 1999 through 2003.

CITY OF SANTA BARBARA
Effective Buying Power
For Calendar Years 1999 through 2003

Year and Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
<u>1999</u>		
City	\$ 1,702,874	\$34,700
County of Santa Barbara	6,908,719	36,401
California	71,154,360	35,247
United States	4,621,491,730	35,377
<u>2000</u>		
City	\$ 1,807,414	36,561
County of Santa Barbara	7,240,915	38,515
California	590,376,663	39,492
United States	4,877,786,658	37,283
<u>2001</u>		
City	\$ 1,888,064	41,653
County of Santa Barbara	7,746,500	43,415
California	652,190,282	44,464
United States	5,230,824,904	39,129
<u>2002</u>		
City	\$ 1,971,161	41,950
County of Santa Barbara	7,412,996	41,440
California	650,521,407	43,532
United States	5,303,481,498	38,365
<u>2003</u>		
City	\$ 2,006,296	42,494
County of Santa Barbara	7,597,949	41,782
California	647,879,427	42,484
United States	5,340,682,818	38,035

SOURCE: Sales and Marketing Management Magazine, Survey of Buying Power.

Retail Sales

The table below presents the City's retail sales for the years from 1997 through 2001.

	<u>Taxable Transactions</u> <u>(in thousands of dollars)</u>	<u>Permits</u>
1997	\$1,320,039	4,996
1998	1,393,536	4,939
1999	1,491,026	4,961
2000	1,579,477	4,881
2001	1,560,879	4,869

Transportation

Excellent transportation service is available to the City. U.S. Highway 101, the major highway between Los Angeles and San Francisco, crosses the City and provides connections to major north-south communities. Amtrak and the Southern Pacific Railroad operate daily passenger and freight trains on the main line through the City between San Francisco and Los Angeles and from those two cities, transcontinental rail connections are available.

Trucking services are offered by major truck lines which provide the City with overnight service to San Francisco, Los Angeles, and San Diego. Greyhound Bus Lines also provide passenger and package service to California communities.

The Santa Barbara Municipal Airport is located approximately eight miles west of the City. United Air Lines, American Airlines, Sky West Delta Connection, United Express, USAir and American Eagle provide scheduled flights and daily commuter connections to principal cities on the west coast.

Cultural and Recreational Activities

The City's natural, historic and commercial attractions make it an attractive visiting spot. The area's natural attractions include its moderate weather, the Pacific Coast with its many beaches and harbor, and the mountains.

Among the historical and cultural attractions are the El Presidio, Santa Barbara Botanical Garden, Santa Barbara Historical Museum, Santa Barbara Museum of Art, Santa Barbara Museum of Natural History, Santa Barbara Zoological gardens, and various other museums and libraries.

Within the City and in the immediate area, there is an exceptional selection of park and recreational opportunities. The City maintains 38 developed parks, 13 undeveloped parks and 25 recreational facilities. In addition to City recreational facilities, various golf courses and tennis courts, hiking trails, bike paths, and open spaces are available to the public for use.

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APPENDIX E

FORM OF LEGAL OPINION OF BOND COUNSEL

*Upon delivery of the Series 2003A Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel
proposes to render its final opinion with respect to the Series 2003A Bonds
in substantially the following form:*

December 18, 2003

Redevelopment Agency of the City of Santa Barbara
Santa Barbara, California

Redevelopment Agency of the City of Santa Barbara
Central City Redevelopment Project Tax Allocation Bonds, Series 2003A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of Santa Barbara (the "Agency") of \$34,810,000 aggregate principal amount of Redevelopment Agency of the City of Santa Barbara Central City Redevelopment Project Tax Allocation Bonds, Series 2003 (the "Bonds"), pursuant to the provisions of the Community Redevelopment Law of the State of California (being Part I of Division 24 of the Health and Safety Code of the State of California), as amended, and an Indenture of Trust, dated as of January 1, 1991, by and between the Agency and Security Pacific National Bank, as trustee, as amended and supplemented by a First Supplement to Indenture of Trust, dated as of February 1, 1993, by and between the Agency and Bank of America National Trust and Savings Association, as successor trustee, a Second Supplement to Indenture of Trust, dated as of December 1, 1995, by and between the Agency and BNY Western Trust Company, as successor trustee (the "Trustee"), a Third Supplement to Indenture of Trust, dated as of July 1, 2001, by and between the Agency and the Trustee, and a Fourth Supplement to Indenture of Trust, dated as of December 1, 2003, by and between the Agency and the Trustee (as so amended and supplemented, the "Indenture"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Agency, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Agency and the Trustee, certificates of the Agency, the Trustee and others, and such other documents, opinions, and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Agency. We have assumed, without undertaking to verify, the accuracy

of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against redevelopment agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Agency.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Agency. Except as otherwise provided in the Indenture, the Bonds are secured by a pledge of the Tax Revenues and all of the moneys in the Special Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Redemption Account and the Reserve Account, subject to the provisions of the Indenture permitting the application thereof for the purposes and upon the terms and conditions set forth in the Indenture.
3. The Series 2003A Bonds are not a lien or charge upon the funds or property of the Agency except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Series 2003A Bonds. The Series 2003A Bonds are not a debt of the City or the State of California and the City and the State not liable for the payment thereof.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP
Per

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT RELATING TO THE SERIES 2003A BONDS

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement"), is executed and entered into as of December 18, 2003, by and among the REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA, a redevelopment agency organized and existing under, and by virtue of, the laws of the State of California (the "Agency"), BNY WESTERN TRUST COMPANY, a banking corporation organized and existing under and by virtue of the laws of the State of California, in its capacity as trustee (the "Trustee"), and BNY WESTERN TRUST COMPANY, a banking corporation organized and existing under and by virtue of the laws of the State of California, in its capacity as Dissemination Agent (the "Dissemination Agent").

WITNESSETH:

WHEREAS, pursuant to the Indenture of Trust, dated as of January 1, 1991, by and between the Agency and Security Pacific National Bank, as trustee, as amended and supplemented by the First Supplement to Indenture of Trust, dated as of February 1, 1993, by and between the Agency and Bank of America National Trust and Savings Association, as successor trustee, the Second Supplement to Indenture of Trust, dated as of December 1, 1995, by and between the Agency and the Trustee, as successor trustee, the Third Supplement to Indenture of Trust, dated as of July 1, 2001, by and between the Agency and the Trustee, and the Fourth Supplement to Indenture of Trust, dated December 1, 2003, by and between the Agency and the Trustee (as so amended and supplemented, the "Indenture"), the Agency has issued the Redevelopment Agency of the City of Santa Barbara Central City Redevelopment Project Tax Allocation Bonds, Series 2003A (the "Bonds"), in the aggregate principal amount of \$34,810,000; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Agency and BNY Western Trust Company, in its capacity as Trustee and in its capacity as Disclosure Agent, for the benefit of the holders and beneficial owners of the Bonds and in order to assist the underwriters of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

"Agency" means the Redevelopment Agency of the City of Santa Barbara.

"Annual Report" means any Annual Report provided by the Agency pursuant to, and as described in, Sections 2 and 3 hereof.

"Annual Report Date" means the date in each year that is eight months and one day after the end of the Agency's fiscal year, which date, as of the date of this Disclosure Agreement, is the first calendar day of March.

"Disclosure Representative" means the Executive Director of the Agency, or his or her designee, or such other person as the Agency shall designate in writing to the Trustee from time to time.

"Dissemination Agent" means BNY Western Trust Company, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Trustee a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 4(a) hereof.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” means the Official Statement, dated July 10, 2001, relating to the Bonds.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” means each National Repository and each State Repository.

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

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

Section 2. Provision of Annual Reports. (a) The Agency shall, or, upon furnishing the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2002-03 fiscal year; the Annual Report for the 2002-03 fiscal year may consist of the Agency’s audited financial statements for fiscal year 2002-03 and the Official Statement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 hereof; provided, however, that the audited financial statements of the Agency, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if 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 4(f) hereof.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Agency shall provide the Annual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall notify the Disclosure Representative of such failure to receive the Annual Report.

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

(d) The Dissemination Agent shall:

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

(ii) provide any Annual Report received by it to each Repository, as provided herein; and

(iii) provided the Dissemination Agent has received the Annual Report pursuant to Section 2(b) hereof, file a report with the Agency and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 3. Content of Annual Reports. The Agency’s Annual Report shall contain or incorporate by reference the following:

(a) The Agency’s audited financial statements, if any, 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, if any, are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited

financial statements in a format similar to that used for the Agency's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) An update of the information contained in Table 2 of the Official Statement for the most recently completed fiscal year.

(ii) An update of the information contained in Table 4 of the Official Statement for the most recently completed fiscal year (including information regarding any delinquencies if the Teeter Plan or the County's Policy, described on page 15 of the Official Statement, is no longer in effect).

(iii) An update of the information contained in Table 5 of the Official Statement for the most recently completed fiscal year, along with a statement comparing cumulative gross tax increment allocated to the Agency as of the end of the Agency's most recently complete Fiscal Year with the Agency's cumulative tax increment limit. The Agency shall also provide a copy of the Annual Accounting of Gross Tax Increment.

(iv) An update of the information contained in Table 7 of the Official Statement for the most recently completed fiscal year.

(v) The amount of any payments by the Agency during the most recently completed Fiscal Year of the type described in "BONDOWNERS' RISKS – State Budget Deficit and Its Impact on Tax Revenues" in the Official Statement.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Agency shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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 have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, 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:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.

- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) The Trustee shall, within five business days 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 Dissemination Agent in writing whether or not to report the event pursuant to subsection (f); provided, however, that the Dissemination Agent shall have no liability to Bond owners for any failure to provide such notice. For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of the Trustee. The Trustee shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Agency 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 law.

(d) If the Agency determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Agency shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Agency shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(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 law, the Agency shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Agency to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) 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 5. 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 4(f) hereof.

Section 6. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days' written notice to the Agency and the Trustee. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Agency in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Agency, so long as such amendment does not adversely affect the rights or obligations of the Trustee or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

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

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

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial statements or information, in order to provide information to investors to enable them to evaluate the ability of the Agency to meet its obligations, including its obligation to pay debt service on the Bonds. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4(f) hereof.

Section 8. 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 9. Default. In the event of a failure of the Agency or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement 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 Agency or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture, and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. The Agency agrees to indemnify and save the Dissemination Agent, the Trustee, their officers, directors, employees and agent, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Agreement or 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. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Agency. The Dissemination Agent shall have no obligation to make any disclosure concerning the Bonds, the Agency or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Trustee under the Indenture. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The Dissemination Agency may conclusively rely upon the Annual Report provided to it by the Agency as constituting the Annual Report required of the Agency in accordance with the Disclosure Agreement. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Agency or any other party, apart from the relationship created by the Indenture and this Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds or the Agency except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Agency as to the materiality of any event for purposes of Section 4 hereof. Neither the Trustee nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Agency for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination in the performance of its duties hereunder. The Agency's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Agency, the Trustee, 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 12. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 13. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

**REDEVELOPMENT AGENCY OF THE CITY
OF SANTA BARBARA**

By: _____
Executive Director

**BNY WESTERN TRUST COMPANY,
AS TRUSTEE**

By: _____
Authorized Officer

**BNY WESTERN TRUST COMPANY,
AS DISSEMINATION AGENT**

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Redevelopment Agency of the City of Santa Barbara

Name of Bond Issue: Redevelopment Agency of the City of Santa Barbara Central City Redevelopment Project
Tax Allocation Bonds, Series 2003A

Date of Issuance: [•]

NOTICE IS HEREBY GIVEN that the Redevelopment Agency of the City of Santa Barbara (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of [•], by and among the Agency and BNY Western Trust Company, in its capacity as Trustee and in its capacity as Dissemination Agent. [The Agency anticipates that the Annual Report will be filed by _____.]

Dated: _____

BNY WESTERN TRUST COMPANY, as Trustee,
on behalf of the Redevelopment Agency of the City
of Santa Barbara

cc: Redevelopment Agency of
the City of Santa Barbara

APPENDIX G
SPECIMEN INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

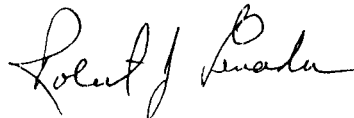
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation, which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



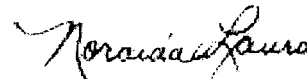
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee



Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President



Secretary

Authorized Representative

APPENDIX H

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2003A Bonds. The Series 2003A Bonds will be issued as fully-registered Series 2003A Bonds 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 Series 2003A Bond will be issued for each maturity of the Series 2003A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities' certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2003A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2003A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 Series 2003A 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 Series 2003A Bonds, except in the event that use of the book-entry system for the Series 2003A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003A 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 Series 2003A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2003A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2003A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (or such other DTC nominee) will consent or vote with respect to Series 2003A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to

whose accounts the Series 2003A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2003A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2003A Bonds are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository), that event, Series 2003A Bonds will be printed and delivered.

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

For so long as the Series 2003A Bonds are registered in the name of DTC or its nominee, Cede & Co., the Agency and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2003A Bonds for all purpose, including payments, notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect DTC Participants and by DTC Participants and DTC Indirect Participants to Beneficial Owners of the Series 2003A Bonds will be governed by arrangements among DTC, DTC Participants, Indirect Participants and Beneficial Owners, subject to any statutory and regulatory requirements as may be effect from time to time.

The Agency and the Trustee cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (1) payments of interest, principal or premium, with respect to the Bonds; (2) certificates representing an ownership interest in or other confirmation of ownership interests in the Bonds; or (3) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Participants or Indirect Participants will service or act in the manner described in this Official Statement.

Neither the Agency nor the Trustee will have any responsibility or obligations to the DTC Participants, the Indirect Participants or the Beneficial Owners with respect to (1) the accuracy of any records maintained by DTC or any DTC Participants or any Indirect Participants with respect to any ownership interest in the Bonds; (2) the payment by DTC or any DTC Participants or any Indirect Participants of any amount due to any Beneficial Owner in respect of the principal amount, redemption price or interest with respect to Bonds; (3) the delivery by DTC or any DTC Participants or any Indirect Participants of any notice which is required or permitted under the terms of the Indenture to be given to Bondowners; (4) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (5) any consent given or other action taken by DTC as the Bondowner.

Discontinuation of Book-Entry Only System

If at any time the Securities Depository notifies the Agency that it is unwilling or unable to continue as Securities Depository with respect to the Bonds, or if the Agency determines that DTC is unable to discharge its responsibilities with respect to the Bonds or that it no longer desirable to utilize a book-entry only system, as the

case maybe, then the Agency shall execute and the Bond Registrar shall authenticate and deliver certificates representing the Bonds of such type as described above.

In the event that the book-entry only system for the Bonds, or any of them, is discontinued, Bonds in fully-registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC Participants may specify (which may be the Indirect DTC Participants or Beneficial Owners), in authorized denominations. The ownership of the Bonds so delivered (and any Bonds hereafter delivered upon a transfer or exchange) shall be registered in registration books to be kept by the Trustee at its Trust Office, and the Agency and the Trustee shall be entitled to treat the registered owners of such Series 2003A Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Indenture.

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