

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with covenants intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds, interest (and original issue discount) on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, such interest (and original issue discount) is also exempt from present State of California personal income taxes. See "CONCLUDING INFORMATION—Tax Exemption" herein for a discussion of the effect of certain provisions of the Code on Owners of the Bonds.

\$20,960,000
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
(Santa Ana Heights Project Area)
Tax Allocation Refunding Bonds, Issue of 2014

Dated: Delivery Date

Due: March 1 and September 1, as shown on the inside front cover

The above-captioned bonds (the "Bonds") will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the Bonds. The principal of, premium if any, and semiannual interest (due March 1 and September 1 of each year, commencing September 1, 2014) on the Bonds will be payable by U.S. Bank National Association, as Trustee, to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the Bonds (see "THE BONDS—Book-Entry System" herein).

The Bonds are not subject to redemption prior to maturity.

The Bonds are being issued by the Successor Agency to the Orange County Development Agency (the "Agency") to refinance the previously issued \$38,465,000 Orange County Development Agency Tax Allocation Refunding Bonds (Santa Ana Heights Project Area) Series 2003, fund a reserve for the Bonds and pay costs of issuance.

The Bonds are payable from and secured by Pledged Tax Revenues (as defined herein) to be derived from the Project Area. Taxes levied on the property within the Project Area on that portion of the taxable valuation over and above the taxable valuation of the base year property tax roll, to the extent they constitute Pledged Tax Revenues, shall be deposited in the Redevelopment Obligation Retirement Fund, and administered by the Agency and the Trustee in accordance with the Indenture.

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. Attention is hereby directed to certain risk factors more fully described herein.

The Bonds are not a debt of the County of Orange, the State of California or any of its political subdivisions (except the Agency) and neither said County, said State nor any of its political subdivisions (except the Agency) is liable therefor. The principal of and interest on the Bonds are payable solely from the Pledged Tax Revenues allocated to the Agency from the Project Area (all as defined herein and in the Indenture) and other funds as set forth in the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The Bonds are offered, when, as and if issued, subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the Agency by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by Jones Hall, a Professional Law Corporation, San Francisco, California. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about January 9, 2014.



\$20,960,000
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
(Santa Ana Heights Project Area)
Tax Allocation Refunding Bonds
Issue of 2014

Maturity Schedule

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP[†]</u> <u>(Base 684248 A)</u>
September 1, 2014	\$1,485,000	3.000%	0.660%	101.501	684248 AA5
March 1, 2015	875,000	4.000%	0.900%	103.520	684248 AB3
September 1, 2015	895,000	4.000%	0.980%	104.913	684248 AC1
March 1, 2016	915,000	5.000%	1.210%	107.997	684248 AD9
September 1, 2016	935,000	5.000%	1.300%	109.585	684248 AE7
March 1, 2017	960,000	5.000%	1.620%	110.319	684248 AF4
September 1, 2017	985,000	5.000%	1.750%	111.424	684248 AG2
March 1, 2018	1,010,000	5.000%	2.040%	111.703	684248 AH0
September 1, 2018	1,035,000	5.000%	2.210%	112.248	684248 AJ6
March 1, 2019	1,060,000	5.000%	2.530%	111.841	684248 AK3
September 1, 2019	1,085,000	5.000%	2.690%	112.018	684248 AL1
March 1, 2020	1,110,000	5.000%	3.040%	110.906	684248 AM9
September 1, 2020	1,140,000	5.000%	3.200%	110.693	684248 AN7
March 1, 2021	1,170,000	5.000%	3.500%	109.405	684248 AP2
September 1, 2021	1,200,000	5.000%	3.620%	109.139	684248 AQ0
March 1, 2022	1,230,000	5.000%	3.830%	108.115	684248 AR8
September 1, 2022	1,260,000	5.000%	3.930%	107.773	684248 AS6
March 1, 2023	1,290,000	5.000%	4.100%	106.800	684248 AT4
September 1, 2023	1,320,000	5.000%	4.170%	106.530	684248 AU1

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**SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
ORANGE COUNTY, CALIFORNIA**

AGENCY/COUNTY OF ORANGE BOARD OF SUPERVISORS

Shawn Nelson, *Chair*
Patricia C. Bates, *Vice-Chair*
Janet Nguyen, *Member*
John M.W. Moorlach, *Member*
Todd Spitzer, *Member*

AGENCY STAFF

Michael B. Giancola, *County Executive Officer*
Susan Novak, *Clerk of the Board of Supervisors*
Steve Franks, *Director, OC Community Resources*
Nicholas S. Chrisos, *County Counsel*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

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

Financial Advisor

KNN Public Finance
A Division of Zions First National Bank
Oakland, California

Fiscal Consultant

Rosenow Spevacek Group, Inc.
Santa Ana, California

Trustee

U.S. Bank National Association
Los Angeles, California

Verification Agent

Causey Demgen & Moore
Denver, Colorado

Underwriter

De La Rosa & Co.
Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. 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.

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

This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Agency or the other parties described in this Official Statement, since the date of this Official Statement.

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

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

No Registration with the SEC. The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

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

Web Page. The County of Orange maintains a website which includes information regarding the Agency. However, the information maintained on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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OFFICIAL STATEMENT

**\$20,960,000
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
(Santa Ana Heights Project Area)
Tax Allocation Refunding Bonds
Issue of 2014**

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, is provided to furnish information in connection with the sale by the Successor Agency to the Orange County Development Agency (the “Agency”) of \$20,960,000 (Santa Ana Heights Project Area) Tax Allocation Refunding Bonds, Issue of 2014 (the “Bonds”).

Authority and Purpose

The Bonds are being issued pursuant to the Constitution and laws of the State of California (the “State”), including Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the “Bond Law”) and an Indenture of Trust dated as of January 1, 2014 (the “Indenture”) by and between the Agency and U.S. Bank National Association, as trustee (the “Trustee”). See “THE BONDS—Authority for Issuance.”

The Bonds are being issued to refinance the previously issued \$38,465,000 Orange County Development Agency Tax Allocation Refunding Bonds (Santa Ana Heights Project Area) Series 2003 (the “2003 Bonds”), currently outstanding in the principal amount of \$23,115,000, to pay costs of issuance of the Bonds, and to fund a reserve account. The 2003 Bonds will be refunded in their entirety.

The Prior Agency and the Agency

The Orange County Development Agency (the “Prior Agency”) was created on February 23, 1982, by Ordinance No. 3310 adopted by the Board of Supervisors (the “Board of Supervisors”) of the County of Orange, California (the “County”) pursuant to the Community Redevelopment Law (Part 1, Division 25, commencing with Section 33000 of the Health and Safety Code of the State) (the “Redevelopment Law”). The Board of Supervisors at the same time declared itself to be the legislative body of the Prior Agency.

On June 28, 2011, Assembly Bill No. 26 (“AB X1 26”) was enacted, together with a companion bill, Assembly Bill No. 27 (“AB X1 27”). A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al. v. Matosantos, et al.*, 53 Cal. 4th 231 (Cal. Dec. 29, 2011), challenging the constitutionality of AB X1 26 and AB X1 27. The California Supreme Court upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 could be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the California Supreme Court in *California Redevelopment Association*, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Prior Agency. Successor agencies were designated as successor entities to the former redevelopment agencies tasked with the expeditious wind down of the affairs of the former redevelopment agencies.

The primary provisions enacted by AB X1 26 relating to the dissolution and wind down of former redevelopment agency affairs are Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“AB 1484”), enacted as Chapter 26, Statutes of 2012 (as further amended from time to time, the “Dissolution Act”).

On January 10, 2012, Thomas G. Mauk, former County Executive Officer, delivered a memorandum to the County Auditor-Controller confirming the County's election to serve as the successor agency to the Prior Agency pursuant to Section 34173 of the Dissolution Act. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Agency is a separate public entity from the County, that the two entities shall not merge, and that the liabilities of the Prior Agency will not be transferred to the County nor will the assets of the Prior Agency become assets of the County. Pursuant to the Dissolution Act, the Agency's activities are subject to review and approval by a seven-member oversight board ("Oversight Board").

The Redevelopment Plan

On July 15, 1986 the Board of Supervisors approved by Ordinance No. 3595 the Redevelopment Plan for the Santa Ana Heights Project Area (the "Redevelopment Plan"). The Redevelopment Plan for the Project Area was amended on November 1, 1994 by Ordinance No. 3924 in order to add time limits required by law. The Redevelopment Plan was approved to enable the Prior Agency to eliminate and prevent the spread of blight in the Project Area.

The Santa Ana Heights Project Area

The Santa Ana Heights Project Area (the "Project Area") was formally established with the adoption by the Board of Supervisors of the Redevelopment Plan as amended by Ordinance No. 3924. The Project Area currently encompasses an area of approximately 1,090 acres. The majority of the Project Area (other than the area within John Wayne Airport) has been annexed by the City of Newport Beach. The assessed value of the Project Area for fiscal year 2013-14 is \$1,336,998,588, representing an increase of \$1,110,347,050 over the base year value of \$226,651,538.

See "THE PROJECT AREA" for additional information on land use and property ownership within the Project Area.

Tax Allocation Financing

Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming taxable valuation in excess of the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding bonds, including the Bonds, to be secured by a pledge of moneys deposited from time to time in a Redevelopment Property Tax Trust Fund held by a county auditor-controller with respect to a successor agency, which are equivalent to the tax increment revenues that were formerly allocated under the Redevelopment Law to the redevelopment agency and formerly authorized under the Redevelopment Law to be used for the financing of redevelopment projects. Under the Indenture, Pledged Tax Revenues consist of a portion of the amounts deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to and as provided in the Dissolution Act. See "SECURITY FOR THE BONDS—Tax Increment Financing" herein for additional information.

Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See "RISK FACTORS."

Security for the Bonds

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Prior Agency had the Prior Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Agency established and held by the County Auditor-Controller (the “Redevelopment Property Tax Trust Fund”) pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Agency will be considered indebtedness incurred by the dissolved Prior Agency, with the same legal effect as if the bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Agency’s Recognized Obligation Payment Schedule (see APPENDIX A—“DEFINITIONS” and “SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule”).

The Dissolution Act further provides that bonds authorized thereunder to be issued by the Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that property tax revenues pledged to any bonds authorized under the Dissolution Act, such as the Bonds, are taxes allocated to the Agency pursuant to the provisions of the Redevelopment Law and the State Constitution which provide for the allocation of tax increment revenues under the Redevelopment Law, as described in the foregoing paragraph. Additionally, under the Dissolution Act, the Agency may pledge to the refunding bonds the same revenues pledged to the bonds being refunded, and that pledge will have the same lien priority as the pledge with respect to the bonds being refunded.

In accordance with and pursuant to the Dissolution Act, “Pledged Tax Revenues” are defined under the Indenture as the portion of the moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act that are equal to that portion of taxes levied upon taxable property in the Project Area and received by the Agency on or after the date of issue of the Bonds, pursuant to Article 6 of Chapter 6 of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State, including (a) all payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and (b) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to Section 33334.3 of the Redevelopment Law, to the extent permitted to be applied to the payment of principal, interest and premium (if any) with respect to the Bonds and any Parity Bonds, but excluding all taxes levied upon aircraft as that term is defined in Section 5303 of the Revenue and Taxation Code of the State (i.e., private aircraft) and amounts of such taxes required to be paid by the Agency pursuant to the Pass-Through Agreements, except to the extent such payments are subordinated to the pledge of Pledged Tax Revenues hereunder. In accordance with the Dissolution Act, the Bonds and Parity Bonds will be payable from and secured by, and Pledged Tax Revenues includes, moneys deposited, from time to time, in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Health & Safety Code Section 34183. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues includes all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution, subject to any prior claims against such revenues under such section.

In connection with the issuance of the 2003 Bonds, the Prior Agency determined that approximately 8.16% of each debt service payment on the 2003 Bonds was eligible to be paid from the Low and Moderate Income Housing Fund. Pursuant to the definition of Pledged Tax Revenues in the Indenture and Section 34177.5(a)(1) of the Dissolution Act, at least 8.16% of each debt service payment on the Bonds is payable from moneys that would have been treated as Low and Moderate Income Housing Funds. However, the Dissolution Act eliminates the requirement to allocate any portion of the moneys deposited into the Redevelopment Property Tax Trust Fund into a Low and Moderate Income Housing Fund. Therefore, it is

under current law that the entire of tax revenues allocated to the Agency from the Redevelopment Property Tax Trust Fund that formerly would have been allocable to the Low and Moderate Income Housing Fund will be available to pay debt service on the Bonds. Statements and projections herein and in the Fiscal Consultant Report regarding the amount of Pledged Tax Revenues available to pay debt service on the Bonds include moneys that, but for the Dissolution Act, would be deposited into the Low and Moderate Income Housing Fund, up to the amount of 8.16% of estimated debt service.

The Bonds are payable from and secured by the Pledged Tax Revenues to be derived from the Project Area, all of the moneys in the Redevelopment Obligation Retirement Fund established and held by the Agency pursuant to the Dissolution Act, and all of the moneys in the Debt Service Fund (including the Interest Account, the Principal Account, and the Reserve Account therein) established and held by the Trustee under the Indenture. Taxes levied on the property within the Project Area on that portion of the taxable valuation over and above the taxable valuation of the applicable base year property tax roll with respect to the various territories within the Project Area, to the extent they constitute Pledged Tax Revenues, as described herein, will be deposited in the Redevelopment Property Tax Trust Fund for transfer by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund on January 2 and June 1 of each year to the extent required for payments listed in the Agency's Recognized Obligation Payment Schedule in accordance with the requirements of the Dissolution Act (see "SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule"). Moneys deposited by the County Auditor-Controller into the Agency's Redevelopment Obligation Retirement Fund will be transferred by the Agency to the Trustee for deposit in the Debt Service Fund established under the Indenture and administered by the Trustee in accordance with the Indenture. See "SECURITY FOR THE BONDS" for a description of accounts maintained by the County Auditor-Controller.

Estimated Pledged Tax Revenues for fiscal year 2013-14 are \$8,068,656, exclusive of certain former housing set aside revenues, providing estimated coverage of Maximum Annual Debt Service on the Bonds of 297%. See "PLEDGED TAX REVENUES."

Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. Pledged Tax Revenues are subject to certain significant risks. See "RISK FACTORS."

Reserve Account

In order to further secure the payment of the principal of and interest on the Bonds, there shall be deposited in a Reserve Account within the Debt Service Fund established pursuant to the Indenture an amount equal to the Reserve Requirement, which may be cash funded or secured by a debt service reserve surety meeting the requirements of a Qualified Reserve Account Credit Instrument. "Reserve Requirement" means, as of the date of computation, an amount equal to the combined lesser of (i) Maximum Annual Debt Service on the Bonds and any Parity Bonds, (ii) 10% of the net proceeds of the Bonds and any Parity Bonds, or (iii) 125% of the average Annual Debt Service on all Bonds and Parity Bonds Outstanding.

Further Information

Brief descriptions of the Bonds, the Indenture, the Agency, the Prior Agency and the County are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bond Law, the Redevelopment Law, the Dissolution Act, the Constitution and the laws of the State as well as the proceedings of the Prior Agency, the Agency and the County are qualified in their entirety by reference to such documents. References herein to the Bonds are qualified in their entirety by the form thereof included in the Indenture and the information with respect thereto included herein, copies of which are all available for inspection at the offices of the Agency.

The Prior Agency's audited financial statements for the period of July 1, 2011 through January 31, 2012 and the Agency's audited financial statements for the period of February 1, 2012 through June 30, 2012

are included in APPENDIX E. Rosenow Spevacek Group, Inc., Santa Ana, California (the “Fiscal Consultant”) is providing consulting services to the Agency with respect to the Project Area and its projected taxable values and anticipated tax increment revenues. The Fiscal Consultant has provided its report regarding its projections in substantially the form attached hereto as APPENDIX F—Fiscal Consultant’s Report. The proposed form of legal opinion of Bond Counsel for the Series 2014 Bonds is set forth in APPENDIX B.

See APPENDIX A—DEFINITIONS for definitions of certain works and terms used herein.

During the period of the offering of the Bonds, copies of the forms of all documents are available at the offices of De La Rosa & Co., 2121 Avenue of the Stars, Suite 2100, Los Angeles, CA 90067, and thereafter from the Clerk of the Board of Supervisors: Hall of Administration, 333 West Santa Ana Blvd., Suite 465, Santa Ana, California 92701.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds is summarized as follows:

Sources:

Principal Amount of Bonds	\$ 20,960,000.00
2003 Bonds Available Funds	3,580,530.23
Underwriter’s Discount	(186,544.00)
Original Issue Premium	<u>1,806,652.90</u>
Total Sources	<u>\$ 26,160,639.13</u>

Uses:

2003 Bonds Escrow Fund ⁽¹⁾	\$ 23,631,574.44
Reserve Account	2,276,665.29
Costs of Issuance Fund ⁽²⁾	<u>252,399.40</u>
Total Uses	<u>\$ 26,160,639.13</u>

⁽¹⁾ Amount will be held uninvested and is sufficient to pay principal, redemption price and interest on the 2003 Bonds, as applicable, on February 10, 2014.

⁽²⁾ Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Financial Advisor, Trustee, Verification Agent, Fiscal Consultant, printing expenses, rating fee and other costs.

THE BONDS

Authority for Issuance

The Bonds were authorized for issuance pursuant to the Indenture, the Bond Law, and the Dissolution Act. The issuance of the Bonds and the Indenture were authorized by the Agency pursuant to Resolution No. 13-107 adopted on October 22, 2013 (the “Resolution”), and by the Oversight Board for the Agency pursuant to Resolution No. 13-004 adopted on October 24, 2013 (the “Oversight Board Action”).

Written notice of the Oversight Board Resolution was provided to the State Department of Finance (“DOF”) pursuant to the Dissolution Act on October 28, 2013, and the DOF requested a review within five business days of such written notice. On November 22, 2013, which is within the time period allotted under the Dissolution Act for the DOF to review the Oversight Board’s approving resolution, the DOF provided a letter to the Agency stating that based on the DOF’s review and application of the law, the Oversight Board Action approving the Bonds is approved by the DOF. See APPENDIX G—“STATE DEPARTMENT OF FINANCE LETTER.”

Description of the Bonds

The Bonds will be executed and delivered as one fully-registered Bond in the denomination of \$5,000 or any integral multiple thereof for each maturity, initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), as registered owner of all Bonds. See “—Book-Entry System” below. The initially executed and delivered Bonds will be dated the Delivery Date and mature on March 1 and September 1 in the years and in the amounts shown on the inside cover page of this Official Statement. Interest on the Bonds will be calculated at the rates shown on the inside cover page of this Official Statement, payable semiannually on March 1 and September 1 in each year, commencing on September 1, 2014, by check mailed to the registered owners thereof or upon the request of the Owners of \$1,000,000 or more in principal amount of Bonds, by wire transfer to an account in the United States which will be designated in written instructions by such Owner to the Trustee on or before the Record Date preceding the Interest Payment Date.

Book-Entry System

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

No Optional Redemption

The Bonds are not subject to redemption prior to maturity.

SECURITY FOR THE BONDS

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Prior Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Prior Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act in two installments on January 2 and June 1. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Agency will be considered indebtedness incurred by the dissolved Prior Agency, with the same legal effect as if the bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Agency’s Recognized Obligation Payment Schedule (see APPENDIX A—“DEFINITIONS” and “SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule”).

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

Pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, taxes levied upon taxable

property in the Project Area each year by or for the benefit of the State, any city, county, city and county, district, or other public corporation (herein sometimes collectively called “taxing agencies”) after the effective date of the ordinance approving the Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the Project Area, as applicable, are to be divided as follows:

(a) *To Taxing Agencies:* That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the Project Area, as applicable (each, a “base year valuation”), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and

(b) *To the Prior Agency/Agency:* Except for that portion of the taxes in excess of the amount identified in (a) above which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of, and the interest on, any bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion will be allocated to, and when collected will be paid into, the fund of that taxing agency, that portion of the levied taxes each year in excess of such amount, annually allocated within the Plan Limit following the Delivery Date, when collected will be paid into a special fund of the Prior Agency. Section 34172 of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the Redevelopment Property Tax Trust Fund will be deemed to be a special fund of the Agency to pay the debt service on indebtedness incurred by the Prior Agency or the Agency to finance or refinance the redevelopment projects of the Prior Agency.

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

“Pledged Tax Revenues” are defined under the Indenture as the portion of the moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act that are equal to that portion of taxes levied upon taxable property in the Project Area and received by the Agency on or after the date of issue of the Bonds, pursuant to Article 6 of Chapter 6 of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State, including (a) all payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and (b) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to Section 33334.3 of the Redevelopment Law, to the extent permitted to be applied to the payment of principal, interest and premium (if any) with respect to the Bonds and any Parity Bonds, but excluding all taxes levied upon aircraft as that term is defined in Section 5303 of the Revenue and Taxation Code of the State (i.e., private aircraft) and amounts of such taxes required to be paid by the Agency pursuant to the Pass-Through Agreements, except to the extent such payments are subordinated to the pledge of Pledged Tax Revenues hereunder. In accordance with the Dissolution Act, the Bonds and Parity Bonds will be payable from and secured by, and Pledged Tax Revenues includes, moneys deposited, from time to time, in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Health & Safety Code Section 34183. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues includes all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance

with Article XVI, Section 16 of the California Constitution, subject to any prior claims against such revenues under such section.

In connection with the issuance of the 2003 Bonds, the Prior Agency determined that approximately 8.16% of each debt service payment on the 2003 Bonds was eligible to be paid from the Low and Moderate Income Housing Fund. Pursuant to the definition of Pledged Tax Revenues in the Indenture and Section 34177.5(a)(1) of the Dissolution Act, at least 8.16% of each debt service payment on the Bonds is payable from moneys that would have been treated as Low and Moderate Income Housing Funds. However, the Dissolution Act eliminates the requirement to allocate any portion of the moneys deposited into the Redevelopment Property Tax Trust Fund into a Low and Moderate Income Housing Fund. Therefore, it is under current law that the entire portion of tax revenues allocated to the Agency from the Redevelopment Property Tax Trust Fund that formerly would have been allocable to the Low and Moderate Income Housing Fund will be available to pay debt service on the Bonds. Statements and projections herein and in the Fiscal Consultant Report regarding the amount of Pledged Tax Revenues available to pay debt service on the Bonds include moneys that, but for the Dissolution Act, would be deposited into the Low and Moderate Income Housing Fund, up to the amount of 8.16% of estimated debt service.

The Bonds are payable from and secured by the Pledged Tax Revenues to be derived from the Project Area. The Bonds are payable from and secured by (i) an irrevocable pledge of the Pledged Tax Revenues to be derived from the Project Area, (ii) an irrevocable pledge of all of the moneys in the Redevelopment Obligation Retirement Fund established and held by the Agency separately for the Project Area pursuant to the Dissolution Act, and (iii) an irrevocable first pledge and lien on all of the moneys in the Debt Service Fund (including the Interest Account, the Principal Account and the Reserve Account therein) established and held by the Trustee in trust for the Bondowners under the Indenture.

Pursuant to the Dissolution Act, the 2014 Bonds are also secured by monies deposited from time to time in the Redevelopment Property Tax Trust Fund, as provided in Section 34183(a)(2) of the Dissolution Act. Taxes levied on the property within the Project Area on that portion of the taxable valuation over and above the taxable valuation of the applicable base year property tax roll with respect to the various territories within the Project Area, to the extent they constitute Pledged Tax Revenues, will be deposited in the Redevelopment Property Tax Trust Fund for transfer by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund on January 2 and June 1 of each year to the extent required for payments listed in the Agency's Recognized Obligation Payment Schedule in accordance with the requirements of the Dissolution Act (see "SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule"). Other tax increment revenues are also deposited in the Redevelopment Property Tax Trust Fund pursuant to the Dissolution Act. Moneys deposited by the County Auditor-Controller into the sub-account of the Agency's Redevelopment Obligation Retirement Fund maintained for the Project Area will be transferred by the Agency to the Trustee for deposit in the Debt Service Fund established under the Indenture and administered by the Trustee in accordance with the Indenture.

In addition to the Project Area, the County created the Neighborhood Development and Preservation Project Area as a separate redevelopment project area. It is the current practice of the County Auditor-Controller to maintain separate accounts for each project area of the Prior Agency in the Redevelopment Property Tax Trust Fund to account for obligations and expenditures attributable to each project area. While amounts attributable to the account for the Prior Agency's other project area are deposited in the Redevelopment Property Tax Trust Fund which is pledged to repayment of the Bonds under the Dissolution Act, investors should not assume that these funds will be available to fund debt service on the Bonds, and the statements and projections of Pledged Tax Revenues do not assume any moneys attributable to another project area will be available to pay debt service on the Bonds.

The Agency has no power to levy and collect taxes, and various factors beyond its control could affect the amount of Pledged Tax Revenues available in any six-month period to pay the principal of and interest on

the Bonds (see “SECURITY FOR THE BONDS—Tax Increment Financing” and “—Recognized Obligation Payment Schedule” and “RISK FACTORS”).

The Bonds are not a debt of the County, the State or any of its political subdivisions (except the Agency), and none of the County, the State or any of its political subdivisions (except the Agency) is liable therefor. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

Tax Increment Financing

Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming taxable valuation is in excess of the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding bonds, including the Bonds, to be secured by a pledge of moneys deposited from time to time in a Redevelopment Property Tax Trust Fund held by a county auditor-controller with respect to a successor agency, which are equivalent to the tax increment revenues that were formerly allocated under the Redevelopment Law to the redevelopment agency and formerly authorized under the Redevelopment Law to be used for the financing of redevelopment projects, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the county auditor-controller. Under the Indenture, Pledged Tax Revenues consist of a portion of the amounts deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to and as provided in the Dissolution Act (see “INTRODUCTORY STATEMENT—Security for the Bonds”). Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See “RISK FACTORS.”

Prior to the dissolution of redevelopment agencies, tax increment revenues from one project area could not be used to repay indebtedness incurred for another project area. However, the Dissolution Act has only required that county auditor-controllers establish a single Redevelopment Property Tax Trust Fund with respect to each former redevelopment agency within the respective county. Additionally, the Dissolution Act now requires that all revenues equivalent to the amount that would have been allocated as tax increment to the former redevelopment agency will be allocated to the Redevelopment Property Tax Trust Fund of the applicable successor agency, and this requirement does not require funds derived from separate project areas of a former redevelopment agency to be separated. In effect, in situations where a former redevelopment agency had established more than one redevelopment project area, the Dissolution Act combines the property tax revenues derived from all project areas into a single trust fund, the Redevelopment Property Tax Trust Fund, to repay indebtedness of the former redevelopment agency or the successor agency. To the extent the documents governing outstanding bonds of a redevelopment agency have pledged revenues derived from a specific project area, the Dissolution Act states, “It is the intent ... that pledges of revenues associated with enforceable obligations of the former redevelopment agencies are to be honored. It is intended that the cessation of any redevelopment agency shall not affect either the pledge, the legal existence of that pledge, or the stream of revenues available to meet the requirements of the pledge.” The implications of these provisions of the Dissolution Act are not entirely clear when a former redevelopment agency has established more than one redevelopment project area. Although the Prior Agency established two project areas, Pledged Tax Revenues consist only of tax revenues derived from the Project Area. Although the Dissolution Act does not require the County Auditor-Controller to maintain separate Redevelopment Property Tax Trust Fund accounts for the Agency’s two project areas, the County does, in fact maintain separate accounts for each project area. Further,

the pledge of tax revenues authorized by Section 34177.5(a)(1) relates back to the specific pledge of tax revenues applicable to the 2003 Bonds, which related solely to the Project Area. Bondowners should not assume that tax revenues derived from the Agency's Neighborhood Development and Preservation Project Area will be available to pay debt service on the Bonds, notwithstanding that the Dissolution Act and the pledge of the Redevelopment Property Tax Trust Fund authorized under it may be interpreted to make such funds available for the payment of debt service on the Bonds. See "THE INDENTURE—Allocation of Bond Proceeds."

Former Section 33401 of the Redevelopment Law authorized redevelopment agencies to make payments to school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. The Prior Agency entered into two agreements for this purpose (the "Pass-Through Agreements"). See "THE PROJECT AREA—Pass-Through Agreements." Additionally, former Section 33676 of the Redevelopment Law, as interpreted by the State Court of Appeal in *Santa Ana Unified School District v. Orange County Development Agency* requires the Agency to make certain payments reflecting inflationary increases in tax increment revenues to each of the school districts in the Project Area (the "33676 Amounts"). See "THE PROJECT AREA—Section 33676 Disbursements to Other Taxing Agencies." The Dissolution Act requires the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund amounts required to be distributed under the Pass-Through Agreements and 33676 Amounts to the taxing entities for each six-month period before amounts are distributed by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund each January 2 and June 1, unless (i) passthrough payment obligations have previously been made subordinate to debt service payments for the bonded indebtedness of the Prior Agency, as succeeded by the Agency, (ii) the Agency has reported, no later than the December 1 and May 1 preceding the January 2 or June 1 distribution date, that the total amount available to the Agency from the Redevelopment Property Tax Trust Fund allocation to the Agency's Redevelopment Obligation Retirement Fund from other funds transferred from the Prior Agency, and from funds that have or will become available through asset sales and all redevelopment operations is insufficient to fund the Agency's enforceable obligations, pass-through payments, and the Agency's administrative cost allowance for the applicable six-month period, and (iii) the State Controller has concurred with the Agency that there are insufficient funds for such purposes for the applicable six-month period. The Agency is treating the Pass-Through Agreements as senior in priority to the Bonds.

If the requirements stated in clauses (i) through (iii) of the foregoing paragraph have been met, the Dissolution Act provides for certain modifications in the distributions otherwise calculated to be distributed for such six-month period. To provide for calculated shortages to be paid to the Agency for enforceable obligations, the amount of the deficiency will first be deducted from the residual amount otherwise calculated to be distributed to the taxing entities under the Dissolution Act after payment of the Agency's enforceable obligations, pass-through payments, and the Agency's administrative cost allowance. If such residual amount is exhausted, the amount of the remaining deficiency will be deducted from amounts available for distribution to the Agency for administrative costs for the applicable six-month period in order to fund the enforceable obligations. The Agency cannot guarantee that this process prescribed by the Dissolution Act of administering the Pledged Tax Revenues will effectively result in adequate Pledged Tax Revenues for the payment of principal and interest on the Bonds when due. See "SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule."

Recognized Obligation Payment Schedule

At least 90 days prior to the annual January 2 and June 1 property tax distribution date, the Dissolution Act requires successor agencies to prepare, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule (the "Recognized Obligation Payment Schedule") listing the enforceable obligations (as defined in the Dissolution Act) of the successor agency, together with the funding source to be used to pay for each enforceable obligation. As defined in the Dissolution Act, "enforceable obligation" includes bonds, including the required debt service, reserve set-asides, and any other

payments required under the indenture or similar documents governing the issuance of the outstanding bonds of the former redevelopment agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and amounts borrowed from the Low and Moderate Income Housing Fund. A reserve may be included on the Recognized Obligation Payment Schedule and held by the successor agency when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following six-month period (see “THE INDENTURE—Covenants of the Agency”).

Under the Dissolution Act, the categories of sources of payments for enforceable obligations listed on a Recognized Obligation Payment Schedule are the following: (i) the Low and Moderate Income Housing Fund, (ii) bond proceeds, (iii) reserve balances, (iv) administrative cost allowance, (v) the Redevelopment Property Tax Trust Fund (but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation or otherwise required under the Dissolution Act), or (vi) other revenue sources (including rents, concessions, asset sale proceeds, interest earnings, and any other revenues derived from the former redevelopment agency, as approved by the oversight board).

The Dissolution Act provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule.

Pursuant to the Dissolution Act, the Recognized Obligation Payment Schedule must be submitted by the Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the DOF, and the State Controller 90 days before the date of the next property tax distribution. If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by such deadlines, the County will be subject to a civil penalty equal to \$10,000 per day for every day the schedule is not submitted to the DOF. Additionally, the Agency’s administrative cost allowance is reduced by 25% if the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by the 80th day before the date of the next January 2 or June 1 property tax distribution, as applicable, with respect to the Recognized Obligation Payment Schedule for subsequent six-month periods. The Agency has timely submitted its Required Obligation Payment Schedule to the required parties for the six-month period through the January 1, 2014-June 30, 2014, and has claimed an amount related to debt service on the 2003 Bonds with respect to this last period. This most recent Recognized Obligation Payment Schedule has been approved by DOF.

The Dissolution Act requires the DOF to make a determination regarding the enforceable obligations and the amounts and funding sources of the enforceable obligations no later than 45 days after the Recognized Obligation Payment Schedule is submitted. The Agency may request additional review by the department and an opportunity to meet and confer on disputed items, if any, within five business days of the determination by the DOF. The DOF will notify the Agency and the County Auditor-Controller as to the outcome of its review at least 15 days before the January 2 or June 1 date of property tax distribution, as applicable. Additionally, the County Auditor-Controller may review a submitted Recognized Obligation Payment Schedule and object to the inclusion of any items that are not demonstrated to be enforceable obligations and may object to the funding source proposed for any items, provided that the County Auditor-Controller must provide notice of any such objections to the Agency, the Oversight Board, and the DOF at least 60 days prior to the January 2 or June 1 date of property tax distribution, as applicable.

Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, the County Auditor-Controller is to distribute funds for each six-month period in the following order specified in Section 34183 of the Dissolution Act: (i) first, subject to certain adjustments for subordinations to the extent permitted under the Dissolution Act and no later than each January 2 and June 1, to each local agency and school entity, to the extent applicable, amounts required for passthrough payments

such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including pursuant to the Pass-Through Agreements and 33676 Amounts; (ii) second, on each January 2 and June 1, to the Agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule; (iii) third, on each January 2 and June 1, to the Agency for the administrative cost allowance, as defined in the Dissolution Act; and (iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in that fiscal year (without giving effect to any passthrough obligations that were established under the Redevelopment Law).

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

Under the Dissolution Act the County Auditor-Controller must prepare estimates of the amounts of (i) property tax to be allocated and distributed and (ii) the amounts of passthrough payments to be made in the upcoming six-month period, and provide those estimates to the entities receiving the distributions and the DOF no later than October 1 and April 1 of each year, as applicable. If, after receiving such estimate from the County Auditor-Controller, the Agency determines and reports, no later than December 1 or May 1, as applicable (i.e., by December 1, 2013 with respect to the Recognized Obligation Payment Schedule for January 1, 2014 through June 30, 2014), that the total amount available to the Agency from the Redevelopment Property Tax Trust Fund allocation to the Agency's Redevelopment Obligation Retirement Fund (in which fund an account is maintained comprising the special fund into which the Pledged Tax Revenues are to be deposited), from other funds transferred from the Prior Agency, and from funds that have or will become available through asset sales and all redevelopment operations, is insufficient to fund the payment of pass-through obligations, for Agency enforceable obligations listed on the Recognized Obligation Payment Schedule, and for the Agency's administrative cost allowance, the County Auditor-Controller must notify the State Controller and the DOF no later than 10 days from the date of the Agency's notification. If the State Controller concurs that there are insufficient funds to pay required debt service, the Dissolution Act provides for certain adjustments to be made to the estimated distributions, as described in more detail under "SECURITY FOR THE BONDS—Tax Increment Financing" above.

The Dissolution Act provides that any bonds authorized thereunder to be issued by the Agency will be considered indebtedness incurred by the dissolved Prior Agency, with the same legal effect as if the bonds had been issued prior to effective date of AB X1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Agency's Recognized Obligation Payment Schedule. Section 34177.5(f) of the Dissolution Act provides that, if the DOF reviews and approves or fails to request review within five business days of an oversight board approval of a bond issuance authorized by Section 34177.5, then the scheduled payments on the bonds shall be listed on the successor agency's Recognized Obligation Payment Schedule and such payments are not subject to further review and approval by the DOF or the State Controller. This review has occurred and the DOF approved the Oversight Board's approval of the issuance of the Bonds on November 22, 2013.

Additionally, if an enforceable obligation provides for an irrevocable commitment of property tax revenue and where allocation of revenues is expected to occur over time, the Dissolution Act provides that a successor agency may petition the State Department of Finance to provide written confirmation that its determination of such enforceable obligation as approved in a Recognized Obligation Payment Schedule is final and conclusive, and reflects the Department's approval of subsequent payments made pursuant to the enforceable obligation. If the confirmation is granted by the State Department of Finance, then the State Department of Finance's review of such payments in each future Recognized Obligation Payment Schedule will be limited to confirming that they are required by the prior enforceable obligation. No such final and conclusive determination has been sought by the Agency.

The Agency has agreed in the Indenture to take all actions required under the Dissolution Act to include scheduled debt service on the Bonds, as well as any amount required under the Indenture to replenish the Reserve Account of the Debt Service Fund, in Recognized Obligation Payment Schedules for each six-month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the Bonds coming due in the respective six-month period, including listing a reserve on the Recognized Obligation Payment Schedule to the extent required by the Indenture or when the next property tax allocation is projected to be insufficient to pay all obligations due under the provisions of the Bonds for the next payment due in the following six-month period (see "THE INDENTURE—Covenants of the Agency").

Parity Bonds

Under the Indenture, in addition to the Bonds, the Agency may issue or incur additional tax allocation bonds (including, without limitation, bonds, notes, interim certificates, debentures or other obligations) secured by a pledge and lien on Pledged Tax Revenues on a parity with the Bonds ("Parity Bonds") in such principal amount as may be determined by the Agency, pursuant to a separate or Supplemental Indenture adopted or entered into by the Agency and the Trustee and for such purposes as are permitted under the Dissolution Act, including without limitation Section 34177.5 thereof, but solely for the purpose of refunding a portion of the Bonds. The Bonds are not subject to optional redemption and it is therefore unlikely that the Agency will issue Parity Bonds.

When bonds are issued to provide savings to the Agency pursuant to Section 34177.5(a)(1) of the Dissolution Act, the following two constraints apply to the size of the financing: (A) the total interest cost to maturity on the refunding bonds or indebtedness plus the principal amount of the refunding bonds or other indebtedness may not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded, and (B) the principal amount of the refunding bonds or the indebtedness will not exceed the amount required to defease the refunded bonds or other indebtedness, to establish customary debt service reserves, and to pay related costs of issuance. If the foregoing conditions are satisfied, the initial principal amount of the refunding bonds or indebtedness may be greater than the outstanding principal amount of the bonds or other indebtedness to be refunded. The successor agency may pledge to the refunding bonds or other indebtedness the revenues pledged to the bonds or other indebtedness being refunded, having the same lien priority as the pledge of the bonds or other obligations to be refunded.

Subject to the foregoing, the Agency may issue or incur such Parity Bonds to refund Bonds, subject to the following additional specific conditions precedent:

- (a) The Agency will be in compliance with all covenants set forth in the Indenture;
- (b) The Oversight Board must have approved the issuance of Parity Bonds;

(c) The Parity Bonds will be on such terms and conditions as may be set forth in a separate or Supplemental Indenture, which will provide for (i) bonds substantially in accordance with the Indenture, and (ii) the deposit of moneys into the Reserve Account in an amount sufficient, together with the balance of the Reserve Account, to equal the Reserve Requirement on all Bonds expected to be outstanding including the Parity Bonds;

(d) Receipt of a certificate or opinion of an Independent Financial Consultant stating that the conditions of Section 34177.5(a)(1) for the issuance of refunding bonds have been met, together with supporting schedules demonstrating such conditions have been met.

(e) The Parity Bonds will mature on and interest will be payable on the same dates as the Bonds (except the first interest payment may be from the date of the Parity Bonds until the next succeeding March 1 or September 1) provided, however, nothing in the Indenture precludes the Agency from issuing and selling Parity Bonds which do not pay current interest.

THE INDENTURE

The following is a summary of certain provisions of the Indenture and does not purport to be complete. Reference is hereby made to the Indenture and to Appendix A for the definition of certain terms used herein. Copies of the Indenture are available from the Agency upon request. All capitalized terms used herein and not otherwise defined will have the same meaning as used in the Indenture.

Allocation of Bond Proceeds

Under the Dissolution Act, the Agency has previously established a special trust fund called the Redevelopment Obligation Retirement Fund (the “Redevelopment Obligation Retirement Fund”), which is held by the Agency and into which the County Auditor-Controller distributes property tax revenues each January 2 and June 1 from the Redevelopment Property Tax Trust Fund for the payment by the Agency of enforceable obligations pursuant to the Recognized Obligation Payment Schedule. The County, with respect to the Redevelopment Property Tax Trust Fund, and the Agency, with respect to the Redevelopment Obligation Retirement Fund, each maintain separate accounts within such funds for the property tax revenues derived from the Project Area and the Agency’s other redevelopment project area (known as the “Neighborhood Development and Preservation Project Area”). See “SECURITY FOR THE BONDS” above.

The Indenture establishes a special trust fund known as the “Debt Service Fund,” and the accounts therein referred to below, which will be held by the Trustee. The Agency will deposit all of the Pledged Tax Revenues received in any Bond Year from the Redevelopment Property Tax Trust Fund in accordance with the Dissolution Act in the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Agency, and immediately thereafter will deposit amounts received therein to the Debt Service Fund established and held under the Indenture until such time during such Bond Year as the amounts so transferred to the Debt Service Fund under the Indenture equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account and the Reserve Account of the Debt Service Fund 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 Bonds, as provided in any Supplemental Indenture.

Pledged Tax Revenues – Application

The Indenture creates accounts within the Debt Service Fund as set forth below, to be known respectively as the 2014 Bonds Interest Account, the 2014 Bonds Principal Account and the 2014 Bonds Reserve Account. Moneys in the Debt Service Fund will be transferred by the Trustee in the following amounts at the following times, for deposit in the following respective accounts within the Debt Service Fund, which are hereby established with the Trustee, in the following order of priority:

(a) 2014 Bonds Interest Account. On or before the 5th Business Day preceding each Interest Payment Date, the Trustee will withdraw from the Debt Service Fund and transfer to the 2014 Bonds Interest Account an amount which, when added to the amount contained in the 2014 Bonds 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 2014 Bonds 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 Indenture, all moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

(b) 2014 Bonds Principal Account. On or before the 5th Business Day preceding each Interest Payment Date in each calendar year beginning September 1, 2014, the Trustee will withdraw from the Debt Service Fund and transfer to the 2014 Bonds Principal Account an amount equal to the principal payments becoming due and payable on Outstanding Bonds and Parity Bonds on such March 1 or September 1, to the extent moneys on deposit in the Redevelopment Obligation Retirement Fund are available therefor. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal payments to become due on such March 1 or September 1 on all Outstanding Bonds. Subject to the Indenture, all moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal payments of the Bonds as it becomes due and payable.

(c) 2014 Bonds Reserve Account. In the event the moneys on deposit in the Debt Service Fund five (5) Business Days before any Interest Payment Date are less than the full amount of the interest and principal payments required to be deposited, the Trustee will, five (5) Business Days before such Interest Payment Date, withdraw from the 2014 Bonds Reserve Account an amount equal to any such deficiency and will notify the Agency of any such withdrawal. Promptly upon receipt of any such notice, the Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the 2014 Bonds Reserve Account an amount which will be sufficient to maintain the Reserve Requirement on deposit in the 2014 Bonds Reserve Account and the Reserve Account of any additional Parity Bonds. If there is not sufficient moneys in the Redevelopment Obligation Retirement Fund to transfer an amount when added to the amount on deposit in the Reserve Account will be sufficient to maintain the Reserve Requirement on deposit in the 2014 Bonds Reserve Account and the Reserve Account for any additional Parity Bonds, the Agency will have an obligation to continue making transfers of Pledged Tax Revenues into the Debt Service Fund, as such revenues become available, and thereafter, as moneys become available in the Debt Service Fund, the Trustee will make transfers to the 2014 Bonds Reserve Account and the Reserve Account for any additional Parity Bonds until there is an amount sufficient to maintain the Reserve Requirement on deposit in the 2014 Bonds Reserve Account and the Reserve Account for any additional Parity Bonds. No such transfer and deposit need be made to the 2014 Bonds Reserve Account (or any subaccount therein) so long as there is on deposit therein a sum at least equal to the Reserve Requirement. Subject to the Indenture all money in the 2014 Bonds Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making transfers to the 2014 Bonds Interest Account and the Bonds Principal Account, in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any amount in the 2014 Bonds Reserve Account in excess of the Reserve Requirement will be withdrawn from the 2014 Bonds Reserve Account semiannually on or before the 5th Business Day preceding March 1 and September 1 by the Trustee and deposited in the Interest Account. All amounts in the 2014 Bonds Reserve Account on the 5th Business Day preceding the final Interest Payment Date will be withdrawn from the Reserve Account and will be transferred either (i) to the 2014 Bonds Interest Account and the 2014 Bonds Principal Account, in such order, to the extent required to make the deposits then required to be made or, (ii) if the Agency has caused to be deposited with the Trustee an amount sufficient to make the deposits required by the Indenture, then at the Written Request of the Agency such amount will be transferred as directed by the Agency. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Reserve Account will be applied

solely to the payment of debt service due on the Bonds. The Agency may cause to be delivered a Qualified Reserve Account Credit Instrument in lieu of cash funding all or a part of the Reserve Requirement.

The Indenture also creates a Rebate Fund for the purpose of collecting the amounts required, if any, to be rebated to the United States in accordance with the requirements of Section 148(f) of the Code. Section 148 of the Code requires, among other things and with certain exceptions, that any amounts earned on nonpurpose investments in excess of the amount which would have been earned if such investments were made at a rate equal to the yield on the Bonds be rebated to the United States. The Indenture requires the Agency to calculate such amount and deposit it into the Rebate Fund for eventual rebate to the United States Treasury.

Investment of Moneys in Funds and Accounts

Subject to the provisions of the Indenture, all moneys held by the Trustee in the Debt Service Fund, the Costs of Issuance Fund, the Reserve Account or the Rebate Fund will be invested at the written direction of the Agency only in Permitted Investments. If the Trustee receives no written directions from the Agency as to the investment of moneys held in any Fund or Account, the Trustee will request such written direction from the Agency and, pending receipt of instructions, will invest such moneys only in Permitted Investments described in subsection (5) of the definition thereof (i.e., certain money market funds).

(a) Moneys in the Redevelopment Obligation Retirement Fund will be invested by the Agency only in obligations permitted by the Redevelopment Law which will by their terms mature not later than the date the Agency estimates the moneys represented by the particular investment will be needed for withdrawal from the Redevelopment Obligation Retirement Fund.

(b) Moneys in the Interest Account and the Principal Account of the Debt Service Fund will be invested only in obligations which will by their terms mature on such dates as to ensure that before each interest and principal payment date there will be in such Account, from matured obligations and other moneys already in such Account, cash equal to the principal and interest payable on such payment date.

(c) Moneys in the Reserve Account will be invested in (i) obligations which will by their terms mature on or before the date of the final maturity of the Bonds or five (5) years from the date of investment, whichever is earlier including for this purpose certain money market funds and the Orange County Investment Pool or (ii) an investment agreement which permits withdrawals or deposits without penalty at such time as such moneys will be needed or in order to replenish the Reserve Account.

(d) Moneys in the Rebate Fund will be invested in Defeasance Securities which mature on or before the date such amounts are required to be paid to the United States.

Except as otherwise provided in the Indenture, obligations purchased as an investment of moneys in any of the Funds or Accounts will be deemed at all times to be a part of such respective Fund or Account, and the interest accruing thereon and any gain realized from an investment will be credited to such Fund or Account and any loss resulting from any authorized investment will be charged to such Fund or Account without liability to the Trustee. The Agency or the Trustee, as the case may be, will sell or present for redemption any obligation purchased whenever it will be necessary to do so in order to provide moneys to meet any payment or transfer from such Fund or Account as required by the Indenture and will incur no liability for any loss realized upon such a sale. All interest earnings received on any moneys invested in the Interest Account, Principal Account or Reserve Account, to the extent they exceed the amount required to be in such Account, will be transferred on each Interest Payment Date to the Debt Service Fund. All interest earnings on moneys invested in the Rebate Fund will be retained in such Fund and applied as set forth in the Indenture. See “RISK FACTORS—Investment Risk.”

Covenants of the Agency

As long as the Bonds are outstanding and unpaid, the Agency will (through its proper members, officers, agents or employees) faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or in any Bond issued under the Indenture, including the following covenants and agreements for the benefit of the Bondowners which are necessary, convenient and desirable to secure the Bonds and will tend to make them more marketable; provided, however, that the covenants do not require the Agency to expend any funds other than the Pledged Tax Revenues:

Covenant 1. Use of Proceeds; Management and Operation of Properties. The Agency covenants and agrees that the proceeds of the sale of the Bonds will be deposited and used as provided in the Indenture and that it will manage and operate all properties owned by it comprising any part of the Project Area in a sound and businesslike manner.

Covenant 2. No Priority. The Agency covenants and agrees that it will not issue any obligations payable, either as to principal or interest, from the Pledged Tax Revenues which have any lien upon the Pledged Tax Revenues prior or superior to the lien of the Bonds. Except as permitted by the Indenture for Parity Bonds, it will not issue any obligations, payable as to principal or interest, from the Pledged Tax Revenues, which have any lien upon the Pledged Tax Revenues on a parity with the Bonds authorized in the Indenture. Notwithstanding the foregoing, nothing in the Indenture prevents the Agency (i) from issuing and selling pursuant to law, refunding obligations payable from and having any lawful lien upon the Pledged Tax Revenues, if such refunding obligations are issued for the purpose of, and are sufficient for the purpose of, refunding all of the Outstanding Bonds, (ii) from issuing and selling obligations which have, or purport to have, any lien upon the Pledged Tax Revenues which is junior to the Bonds or (iii) from issuing and selling bonds or other obligations which are payable in whole or in part from sources other than the Pledged Tax Revenues. As used in the Indenture “obligations” includes, without limitation, bonds, notes, interim certificates, debentures or other obligations.

Covenant 3. Punctual Payment. The Agency covenants and agrees that it will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds on the date, at the place and in the manner provided in the Bonds. Further, it will take all actions required under the Dissolution Act to include on the Recognized Obligation Payment Schedules for each six-month period of a calendar year, beginning with the first six-month period arising after the Delivery Date for which no Recognized Obligation Payment Schedule has been submitted, all payments to the Trustee to satisfy the requirements of the Indenture, including any amounts required under the Indenture to replenish the Reserve Account of the Debt Service Fund to the full amount of the Reserve Requirement. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF, to the extent necessary, the amounts to be held by the Agency as a reserve until the next six-month period, as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to provide for the payment of principal and interest under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture for the next payment due in the following six-month period. For the avoidance of doubt, the Agency agrees that it will take all actions required under the Dissolution Act to include in the Recognized Obligation Payment Schedule relating to the January 2 payment date commencing January 2, 2015, the annual scheduled debt service on the Bonds and any Parity Bonds coming due in that same calendar year.

Covenant 4. Payment of Taxes and Other Charges. The Agency covenants and agrees that it will from time to time pay and discharge, or cause to be paid and discharged, all payments in lieu of taxes, service charges, assessments or other governmental charges which may lawfully be imposed upon the Agency or any of the properties then owned by it in the Project Area, or upon the revenues and income therefrom, and will pay all lawful claims for labor, materials and supplies which if unpaid might become a lien or charge upon any of the properties, revenues or income or which might impair the security of the Bonds or the use of Pledged Tax Revenues or other legally available funds to pay the principal of and interest on the Bonds, all to the end

that the priority and security of the Bonds shall be preserved; provided, however, that nothing in this covenant requires the Agency to make any such payment so long as the Agency in good faith contests the validity of the payment.

Covenant 5. Books and Accounts; Financial Statements. The Agency covenants and agrees that it will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries will be made of all transactions relating to the Redevelopment Project and the Tax Revenues and other funds relating to the Redevelopment Project. The Agency will prepare within one hundred eighty (180) days after the close of each of its Fiscal Years a complete financial statement or statements for such year, in reasonable detail covering the Tax Revenues and other funds, accompanied by an opinion of an Independent Certified Public Accountant appointed by the Agency, and will furnish a copy of the statement or statements to the Trustee and any rating agency which maintains a rating on the Bonds and, upon written request, to any Bondowner. The Trustee will have no duty to review the Agency's financial statements. The Agency's financial statements may be included as part of the County's Comprehensive Annual Financial Report.

Covenant 6. Eminent Domain Proceeds. The Agency covenants and agrees that if all or any part of the Redevelopment Project Area should be taken from it without its consent, by eminent domain proceedings or other proceedings authorized by law, for any public or other use under which the property will be tax exempt, it will take all steps necessary to adjust accordingly the base year property tax roll of the Project Area.

Covenant 7. Disposition of Property. The Agency covenants and agrees that it will not dispose of more than ten percent (10%) of the land area in the Project Area (except property shown in the Redevelopment Plan in effect on the date the Indenture is adopted as planned for public use, or property to be used for public streets, public off street parking, sewage facilities, parks, easements or right-of-way for public utilities, or other similar uses) to public bodies or other persons or entities whose property is tax exempt, unless such disposition will not result in Pledged Tax Revenues to be less than the amount required for the issuance of Parity Bonds as provided in the Indenture, based upon the certificate or opinion of an Independent Financial Consultant appointed by the Agency.

Covenant 8. Protection of Security and Rights of Bondowners. The Agency covenants and agrees to preserve and protect the security of the Bonds and the rights of the Bondowners and to contest by court action or otherwise (a) the assertion by any officer of any government unit or any other person whatsoever against the Agency that (i) the Redevelopment Law or Refunding Law is unconstitutional or (ii) that the Pledged Tax Revenues pledged under the Indenture cannot be paid to the Agency for the debt service on the Bonds or (b) any other action affecting the validity of the Bonds or diluting the security therefor.

Covenant 9. Tax Covenants. The Agency covenants and agrees to contest by court action or otherwise any assertion by the United States of America or any department or agency thereof that the interest received by the Bondowners is includable in gross income of the recipient under federal income tax laws on the date of issuance of the Bonds. In order to preserve the exclusion from gross income of interest on the Bonds, and for no other reason, the Agency covenants to comply with all applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), together with any amendments thereto or regulations promulgated thereunder necessary to preserve such tax exemption as more specifically provided in the Indenture.

Covenant 10. Compliance with Dissolution Act. The Agency covenants that in addition to complying with the requirements of Covenant 3, it will comply with all other requirements of the Dissolution Act. Without limiting the generality of the foregoing, the Agency covenants and agrees to file all required statements and hold all public hearings required under the Dissolution Act to assure compliance by the Agency with its covenants under the Indenture. Further, it will take all actions required under the Dissolution Act to include scheduled debt service on the Bonds, as well as any amount required under the Indenture to replenish the Reserve Accounts of the Debt Service Funds, in Recognized Obligation Payment Schedules for each six-

month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the Bonds coming due in the respective six-month period. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF, to the extent necessary, the amounts to be held by the Agency as a reserve until the next six-month period, as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to provide for the payment of principal and interest under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture for the next payment due in the following six-month period.

Covenant 11. Limitation on Indebtedness. The Agency covenants and agrees that it has not and will not incur any loans, obligations or indebtedness repayable from Pledged Tax Revenues such that the total aggregate debt service on said loans, obligations or indebtedness incurred from and after the date of adoption of the Redevelopment Plan, when added to the total aggregate debt service on the Bonds, will exceed the maximum amount of Pledged Tax Revenues to be divided and allocated to the Agency pursuant to the Redevelopment Plan.

Covenant 12. Further Assurances. The Agency covenants and agrees to 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.

Covenant 13. Continuing Disclosure. The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any participating underwriter, holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Events of Default and Remedies

The following events will constitute Events of Default under the Indenture:

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

(b) if default is made by the Agency in the observance of any of the covenants, agreements (including default by the obligor on any underlying agreement) 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 is continued for a period of 30 days following receipt by the Agency of written notice from the Trustee or any Owner of the occurrence of such default; or

(c) if the Agency commences a voluntary action under Title 11 of the United States Code or any substitute or successor statute.

If an Event of Default has occurred and is continuing, the Trustee may, or if requested in writing by the Owners of the majority in aggregate principal amount of the Bonds then Outstanding, the Trustee will, by written notice to the Agency, (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 will become immediately due and payable, and (b) upon receipt of indemnity 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 will give notice of such Event of Default to the Agency by telephone confirmed in writing. Such notice will also state whether the principal of the Bonds will 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 will, 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 Agency and the Owners in the manner provided for in the Indenture, which will include the statement that interest on the Bonds will cease to accrue from and after the date, if any, on which the Trustee will 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 has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the Agency deposits with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law) at the net effective rate then borne by the Outstanding Bonds, and the reasonable fees and 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) has been made good or cured to the satisfaction of the Trustee or provisions deemed by the Trustee to be adequate 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 the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

Upon the occurrence of an event of default, the Trustee may, with the consent of a majority of the Holders, by written notice to the Agency, declare the principal of the Bonds and Parity Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment will, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding.

Application of Funds Upon Acceleration

All of the Pledged Tax Revenues and all sums in the funds and accounts established and held by the Trustee upon the date of the declaration of acceleration as provided in the Indenture, and all sums thereafter received by the Trustee under the Indenture, will 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 and Parity 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 and Parity Bonds (to the extent that such interest on overdue installments of principal and interest has been collected), and in case such moneys will be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds and Parity 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 or Parity Bonds over any other Bond or Parity Bonds.

Amendments

Subject to the terms of the Indenture, the Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which will become binding upon adoption, without consent of any Owners, to the extent permitted by law and any for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Agency in the Indenture contained, other covenants and agreements thereafter to be observed or to limit or surrender any rights or powers therein reserved to or conferred upon the Agency; or

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

(c) to provide for the issuance of Parity Bonds pursuant to the Indenture, and to provide the terms and conditions under which such Parity Bonds 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 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 and subject to the terms of the Indenture, the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which will 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 will (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.

THE SUCCESSOR AGENCY TO THE ORANGE COUNTY DEVELOPMENT AGENCY

The Prior Agency was established under the Redevelopment Law and was activated by Ordinance No. 3310 adopted by the Board of Supervisors on March 23, 1982, at which time the Board of Supervisors declared itself to be the governing board of the Agency. On June 29, 2011, AB X1 26 was enacted as Chapter 5, Statutes of 2011, together with a companion bill, AB X1 27. A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al. v. Matosantos, et al.*, 53 Cal. 4th 231 (Cal. 2011), challenging the constitutionality of AB X1 26 and AB X1 27. In its December 29, 2011 decision, the California Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Prior Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

On January 10, 2012, Thomas G. Mauk, former County Executive Officer, delivered a memorandum to the County Auditor-Controller confirming the County's election to serve as the successor agency to the Prior Agency pursuant to Section 34173 of the Dissolution Act. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Agency is a separate public entity from the County, that the two entities shall not merge, and that the liabilities of the Prior Agency will not be transferred to the County nor will the assets of the Prior Agency become assets of the County.

The Agency is governed by a five-member Board of Supervisors which consists of the members of the Board of Supervisors of the County of Orange. Members of the governing board of the Agency and their terms of office are shown below:

<i>Name and Office</i>	<i>Expiration of Term</i>
Shawn Nelson, <i>Chair</i>	January 5, 2015
Patricia C. Bates, <i>Vice-Chair</i>	January 5, 2015
Janet Nguyen, <i>Member</i>	January 2, 2017
John M.W. Moorlach, <i>Member</i>	January 5, 2015
Todd Spitzer, <i>Member</i>	January 2, 2017

Agency Powers

All powers of the Agency are vested in its five-members who are elected members of the Board of Supervisors. Pursuant to the Dissolution Act, the Agency is a separate public body from the County and succeeds to the organizational status of the Prior Agency but without any legal authority to participate in redevelopment activities, except to complete any work related to an approved enforceable obligation. The Agency is tasked with expeditiously winding down the affairs of the Prior Agency, pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, many Agency actions are subject to approval by the Oversight Board, as well as review by the DOF. California has a strict open meeting law, known as the Ralph M. Brown Act, that makes all non-excepted Agency and Oversight Board meetings open to the public in the same manner as Board of Supervisor meetings.

Under the Political Reform Act of 1974, public officials are required to make extensive disclosures regarding their financial interests by filing such disclosures as public records. As of the date of this Official Statement, the members of the Board of Supervisors and the Agency, and other County and Agency officials have made the required filings.

Previously, Section 33675 of the Redevelopment Law required the Prior Agency to file not later than the first day of October of each year with the County Auditor of a statement of indebtedness certified by the chief fiscal officer of the Prior Agency for each redevelopment plan which provides for the allocation of taxes (i.e., the Redevelopment Plan). The statement of indebtedness was required to contain the date on which the bonds were delivered, the principal amount, term, purposes and interest rate of the bonds and the outstanding balance and amount due on the bonds. Similar information was required to be given for each loan, advance or indebtedness that the Prior Agency had incurred or entered into which is payable from tax increment. Section 33675 also provided that payments of tax increment revenues from the County Auditor to the Prior Agency could not exceed the amounts shown on the Prior Agency's statement of indebtedness. The Dissolution Act eliminates this requirement and provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, the Recognized Obligation Payment Schedule supersedes the statement of indebtedness previously required under the Redevelopment Law, and commencing from such date, the statement of indebtedness will no longer be prepared or have any effect under the Redevelopment Law (see "SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule"). The Dissolution Act does require a post audit of the financial transaction and records of the Agency to be made at least annually by a certified public accountant.

RISK FACTORS

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

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

Reduction in Taxable Value

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

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

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

Risks to Real Estate Market

The Agency's ability to make payments on the Bonds will be dependent upon the economic strength of the Project Area. The general economy of the Project Area will be subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Project Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. If such events lead to a decline in assessed values they could cause a reduction in Pledged Tax Revenues. In addition, if there is a decline in the general

economy of the Project Area, the owners of property within the Project Area may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of Pledged Tax Revenues by the Agency from the Project Area. Moreover, the insolvency or bankruptcy of one or more large owners of property within the Project Area could delay or impair the receipt of Pledged Tax Revenues by the Agency.

Reduction in Inflationary Rate

As described in greater detail below, Article XIII A of the State Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2 percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2 percent, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2 percent. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2 percent limitation seven times. In Fiscal Year 2010-11 and 2011-12, the inflationary value adjustment was 0.99736% and 0.753%, respectively, which also was below the 2 percent limitation. For Fiscal Year 2013-14, the inflationary value adjustment is 2.00%, which is the maximum permissible increase under Article XIII A. The Agency is unable to predict whether any adjustments to the full cash value of real property within the Project Area, either an increase or a reduction, will be realized in the future.

Property Tax and Valuation Procedures

Secured and Unsecured Valuation. In California, property which is subject to ad valorem taxes is classified as “secured” or “unsecured.” Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The secured classification includes property on which any property tax levied by the County becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over all other liens on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against the taxes on unsecured property, but may become a lien on certain other property owned by the taxpayer. Property tax laws provide for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. To the extent such supplemental assessments occur within the Project Area, Pledged Tax Revenues may increase.

Taxation of Commercial Aircraft. The definition of Pledged Tax Revenues excludes the assessment of private aircraft, but includes the assessment of commercial aircraft. Commercial aircraft at John Wayne Airport accounted for a total of approximately \$370 million in unsecured assessed valuation in 2013-14, which was approximately 28% of the total assessed value in the Project Area in that year. The assessed valuation of commercial aircraft in the Project Area is determined based on the value of the fleet of commercial aircraft owned by the airlines that maintain flights to and from John Wayne Airport, as depreciated pursuant to a depreciation schedule published each year by the State Board of Equalization, as well as the air time and ground time associated with each aircraft, which in turn is affected by the frequency of flights in and out of John Wayne Airport. The assessed value of commercial aircraft is therefore influenced by different economic factors from those affecting other assessed property interests such as the volume of air travel at John Wayne Airport, among other things. Accordingly, commercial aircraft assessed values may be generally more volatile than other property tax assessed valuations. In the past five years, the assessed value of commercial aircraft in the Project Area has ranged from 27% to 33% of total assessed value of all property in the Project Area. Recent trends among air carriers include transitioning shorter flights to smaller carriers, which has served to reduce the assessed values associated with commercial aircraft in some areas. See “PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Taxation of Commercial Aircraft.*”

Concentration of Unsecured Assessed Value

The unsecured roll represents approximately 34% of the overall 2013-14 assessed value for the Project Area. John Wayne Airport is located within the boundaries of the Project Area and the assessment of commercial aircraft in the Project Area is the biggest contributing factor to the fluctuations in unsecured value. Over the last five years, the average percentage of unsecured value has fluctuated from 44% (in fiscal year 2009-10) to 34% (in fiscal year 2013-14) of total assessed value of all property in the Project Area. See Table 7 in “Pledged Tax Revenues” below.

The Redevelopment Plan for the Project excludes the assessment of private aircraft from the definition of tax increment, but includes the assessment of commercial aircraft. In fiscal year 2013-14, assessed valuation of commercial aircraft accounted for approximately 28% of the total assessed valuation in the Project Area. See “—Property Tax and Valuation Procedures” above for a description of the manner of determining the assessed valuation of commercial aircraft property.

In general, because property on the unsecured tax roll includes personal property and leasehold interests, the values of property on the unsecured roll are more likely to fluctuate and are more susceptible to reduction due to adverse economic circumstances affecting the owner of the properties. Unsecured properties in the Project Area are particularly affected by economic conditions which affect the operation of John Wayne Airport and which affect the operation of commercial airlines generally. For example, if these factors were to cause the commercial airlines that serve John Wayne Airport to reduce the number of flights to and from the airport, or result in fewer aircraft serving the airport, the assessed value of commercial aircraft in the Project Area could be substantially reduced.

Operation of John Wayne Airport; Competing Airport

As described above, airport operations may affect the assessed value of property within the John Wayne Airport, including the assessed valuation of real property as well as aircraft, leasehold interests and other unsecured values. The airline industry is cyclical and subject to intense competition and variable demand. Traffic volumes are responsive to economic circumstances and seasonal patterns. For example, both U.S. Airways, Inc. and American Airlines are among the major taxpayers on the unsecured assessment roll. The widely publicized merger of American Airlines and U.S. Airways could ultimately impact flights associated with those carriers. However, the Agency cannot predict whether John Wayne Airport will be affected; it is not a hub for either airline. Other factors, such as fuel and regulatory costs, can also have a significant impact on the industry. As a result, financial performance in the industry has fluctuated dramatically.

Bankruptcy of Major Airlines

American Airlines, the third largest air carrier serving the John Wayne Airport in terms of total passengers, operated under bankruptcy protection until December 9, 2013, emerging from bankruptcy on that date and reorganized in a merger with U.S. Airways. The assessed value of property owned by American Airlines within the Project Area accounts for approximately 6% of total 2013-14 assessed valuation in the Project Area. This bankruptcy, and the prior bankruptcies of other major carriers at the airport, have had no adverse financial impact upon the John Wayne Airport or upon assessed values in the Project Area to date. Nonetheless, the Agency makes no representation about the continued viability of any of the airlines serving the John Wayne Airport, or what impact the financial condition of the airline industry in general, or any carrier in particular, might have upon service at the John Wayne Airport or the assessed valuation of secured and unsecured properties at the John Wayne Airport.

Teeter Plan

Orange County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), which allows each entity levying secured property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected. The result of the Teeter Plan is that each levying entity included in the Teeter Plan is paid 100% of the base secured roll property tax allocated to it. Roll corrections and adjustments are made dollar-for-dollar from subsequent year’s payments. Delinquent payments and penalties are retained by the County.

The County’s Teeter Plan will remain in effect in perpetuity unless the Board of Supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county.

To the extent that the County’s Teeter Plan continues in existence and is carried out as adopted, it may help protect Bond Owners from the risk of delinquencies in the payment of secured property taxes from which a portion of the Pledged Tax Revenues are derived; however, the Agency can give no assurance the Teeter Plan will be continued. The Teeter Plan does not cover collection of taxes levied on the unsecured roll. Thus, the Teeter Plan does not affect the collection of a significant portion of the Pledged Tax Revenues for the security of the Bonds.

Levy and Collection of Taxes

The Agency has no independent power to levy or collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Pledged Tax Revenues, and accordingly, could have an adverse impact on the security for and the ability of the Agency to repay the Bonds.

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

State Budget Issues

AB X1 26 and AB 1484 were enacted by the State Legislature and Governor as trailer bills necessary to implement provisions of the State’s budget acts for its fiscal years 2011-12 and 2012-13, respectively. The 2011-12 State budget included projected State savings estimated to aggregate \$1.7 billion in 2011-12 associated with AB X1 27, which would have allowed redevelopment agencies to continue in operation provided their establishing cities or counties agreed to make an aggregate \$1.7 billion in payments to K-12 schools. However, in December 2011 AB X1 27 was found by the California Supreme Court to violate the State Constitution, which altered this budgetary plan of the State. According to the State’s Summary of the 2012-13 State budget, AB 1484 implements a framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services, with assets transferred to schools offsetting State general fund costs. There can be no assurance that additional legislation will not be enacted in the future to additionally implement provisions relating to the State budget or otherwise that may affect successor agencies or Pledged Tax Revenues. The full text of each State Assembly bill cited above may be obtained from the “California Legislative Information” website maintained by the Legislative Counsel of the State of California pursuant to State law, at the following web link: <http://leginfo.legislature.ca.gov/faces/billSearchClient.xhtml>.

Information about the State budget and State spending is available at various State maintained websites. Text of the current State budget, and other documents related to the State budget may be found at the website of the State Department of Finance, www.dof.ca.gov. A nonpartisan analysis of the budget is posted by the Legislative Analyst's Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer, www.treasurer.ca.gov.

None of the websites or webpages referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. The Agency makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

Recognized Obligation Payment Schedule

As described in greater detail under the heading "SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule," the law provides that only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each six-month period, the Dissolution Act requires successor agencies to prepare and approve, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Pledged Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to the property tax distribution dates, as applicable. See "SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule" and "PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Recognized Obligation Payment Schedule*." In the event the Agency were to fail to file a Recognized Obligation Payment Schedule with respect to a six-month period, the availability of Pledged Tax Revenues to the Agency could be adversely affected for such period.

AB 1484 Penalty for Failure to Remit Unencumbered Funds

AB 1484 further implements certain provisions of AB X1 26, including establishing a process for determining the liquid assets that redevelopment agencies should have transferred to their successor agencies when they were dissolved, and the amount that should be available for remittance by the successor agencies to their respective county auditor-controllers for distribution to affected taxing entities within the project areas of the former redevelopment agencies. This process was to be completed by November 9, 2012 with respect to affordable housing funds and by April 1, 2013 with respect to non-housing funds. Within five business days of receiving notification from the DOF, the Agency must remit to the county Auditor-Controller the amount of unobligated balances determined by the DOF, or it may request a meet and confer with the DOF to resolve any disputes. If there is a meet and confer process, the Agency must remit the amount of unobligated balances within five working days of receiving a subsequent notification from the DOF of the amount of unobligated balances at the conclusion of that process.

As required by the law, the Agency successfully completed its Housing Funds Due Diligence Review and submitted the review to the DOF on October 17, 2012. After receiving final approval by the DOF on December 21, 2012, the Agency remitted \$20,415,754 to the County Auditor-Controller on December 27, 2012.

The Agency completed its "All Other Funds" Due Diligence Review and submitted it to the State DOF on December 21, 2012. The DOF issued its final determination letter on May 4, 2013, and shortly thereafter, \$75,879,453.50 was remitted to the County Auditor-Controller. Due to timing issues, the Agency was not able to remit the final \$2,300,623 to the County Auditor-Controller until July 1, 2013. Although this date is well beyond the required five (5) day turnaround period as set by AB 1X 26, the Agency did receive

authorization from the DOF to delay final payment until July 1, 2013. On July 1, 2013, the Agency remitted the final \$2,300,623 to the County Auditor-Controller, and has since received a "Finding of Completion" from the DOF.

Bankruptcy and Foreclosure

The payment of the property taxes from which Pledged Tax Revenues are derived and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

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

Estimated Revenues

In estimating that Pledged Tax Revenues will be sufficient to pay debt service on the Bonds, the Agency has made certain assumptions with regard to present and future assessed valuation in the Project Area, future tax rates and percentage of taxes collected. The Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and the tax rates are less than expected, the Pledged Tax Revenues available to pay debt service on the Bonds will be less than those projected and such reduced Pledged Tax Revenues may be insufficient to provide for the payment of principal of, premium (if any) and interest on the Bonds.

Hazardous Substances

An additional environmental condition that may result in the reduction in the assessed value of property would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the Project Area. In general, the owners and operators of 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.

Natural Disasters

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

Seismic Considerations. The County, like most regions that border the Pacific Ocean, is an area of significant seismic activity, and therefore, is subject to potentially destructive earthquakes. Two potentially hazardous fault zones run along the coastal and inland edges of the County. The best known of the two faults is the Newport-Inglewood Fault, which angles inland from the Pacific Ocean near Dana Point through the City of Newport Beach. The fault continues into Los Angeles County through the Cities of Long Beach and Torrance. This fault zone produced the 1933 Long Beach earthquake with a Richter scale magnitude of 6.3. It is believed this fault is capable of generating a maximum credible 7.5 magnitude earthquake.

The Whittier Fault parallels the Newport-Inglewood Fault across the northeasterly edge of the County. The Whittier Fault is believed to be the main spur from the larger Elsinore Fault which follows a general line easterly of the Santa Ana Mountains into Mexico. Most recorded shocks in this zone range from 4.0 to 5.0 magnitude on the Richter scale, which is considered moderately active. However, in 1910 an earthquake estimated at 6.0 on the Richter scale hit Riverside County in the vicinity of Lake Elsinore. It is projected that the maximum credible earthquake capable from the Whittier-Elsinore Fault Zone is 7.0 magnitude. Additionally, earthquakes on faults located outside the County can cause damage within the County. Depending on their magnitude, earthquakes generated within a fifty-mile radius of a given point are considered noteworthy and could cause minor to moderate damage. For the County, and the Project Area, these perimeter faults are: San Andreas; San Jacinto (including Imperial and Superstition Hills); Malibu-Coast-Raymond; Palos Verdes; San Gabriel; and Sierra Madre-Santa-Susana-Cucamonga faults. It is possible that additional faults exist that have not yet been discovered.

Due to the proximity of active and potentially active faults in and around the County and its degree of urbanization, the risk of structural damage and loss of life due to ground shaking is considerable. Portions of the Project Area are located in areas of moderate to high shaking potential. The risk of secondary hazards is also significant. According to various geologic experts, much of the County is subject to various levels of liquefaction. Liquefaction is a property of saturated sand or coarse silt which when vibrated, often behaves as a heavy liquid. Portions of the Project Area are located in areas of liquefaction potential.

Flood Hazards. The County receives about 13 inches of rainfall each year and large floods are rare. However, the County has experienced significant flooding during its history, and the potential exists within parts of the County for flooding which could cause extensive damage. One of the greatest threats is posed by the Santa Ana River, which begins in the San Bernardino Mountains and reaches the Pacific Ocean after traversing 100 miles through San Bernardino, Riverside and Orange Counties. Flooding from the Santa Ana River occurred in 1822, 1851, 1862, 1916, 1938 and 1969. The 1938 flood devastated central Orange County, causing extensive property damage and 19 deaths. The Federal Emergency Management Agency has designated certain areas within the County which are susceptible to inundation during a 100-year flood, including portions of the Project Area.

The Orange County Flood Control District, which was formed in 1927, operates and maintains flood control facilities for the control and conservation of flood and storm waters. The main source of funding for flood control maintenance and improvements comes from local property taxes. To respond to flooding risks, the Santa Ana River Mainstem Project has been initiated, consisting of improvements covering 75 miles, from the headwaters of the Santa Ana River east of the city of San Bernardino to the mouth of the river at the Pacific Ocean between Newport Beach and Huntington Beach.

Changes in the Law

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

The Dissolution Act is new and implementation of its provisions have been and will be subject to differing interpretations by different stakeholders, including the DOF, the State Controller, oversight boards, successor agencies, auditor-controllers, and others, and the Dissolution Act could be subject to further legislative action or judicial review. The Agency cannot predict outcomes, or impact, of any such interpretations or reviews, on availability of Pledged Tax Revenues to pay the Bonds.

Investment Risk

Funds held under the Indenture are required to be invested in Permitted Investments in accordance with the Indenture. See Appendix A attached hereto for the definitions of Permitted Investments. Included as a Permitted Investment under the Indenture is the Orange County Investment Pool (the “Pool”) which is operated by the County Treasurer. The Pool’s Investment Policy applies to all funds managed by the County Treasurer as delegated by the Board of Supervisors. Information regarding the Pool, including the Investment Policy for the Pool, the current investments held in the Pool, the monthly investment reports and audits for the Pool may be obtained at the County Treasurer’s website at ocgov.com/ocinvestments. The Pool includes the Orange County Money Market Fund and portions of the Extended Fund. Standard & Poor’s Ratings Services (“Standard & Poor’s”) has assigned its ‘AAAm’ principal stability fund rating to the Orange County Money Market Fund and the Extended Fund is not rated. The rating reflects only the view of Standard & Poor’s, and explanation of the significance of the rating may be obtained from Standard & Poor’s Ratings Group, 55 Water Street, New York, New York 10041; (212) 438-2124. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Standard & Poor’s, if in the judgment of Standard & Poor’s, circumstances so warrant. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, including the types of investments permitted to be held in the Pool, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal.

Oversight of the Pool’s investments is conducted in several ways. First, the Board of Supervisors established the County Treasury Oversight Committee (the “Committee”) on December 19, 1995, pursuant to California Government Code Section 27130 et. seq. The Committee’s primary responsibilities are as follows: to review and monitor the annual investment policy; cause an annual audit to be conducted on the Investment Policy; and to investigate any and all irregularities in the treasury operation that are reported. The County Treasurer nominates and the Board of Supervisors confirms the members of the Committee, which is comprised of the County Executive Officer, the County Auditor-Controller, the County Superintendent of Schools, and two public members. Next, the County Auditor-Controller’s Internal Audit Division audits the portfolio on a quarterly and annual basis pursuant to California Government Code Sections 26920 and 26922. Finally, an independent audit is also conducted annually as required by Sections 27130 through 27137 of California Government Code and the Investment Policy.

The County Treasurer’s website referenced above is not in any way incorporated into this Official Statement and is cited for informational purposes only. The Authority makes no representation whatsoever as to the accuracy or completeness of any of the information on such website.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in the Pool following a bankruptcy proceeding filed on behalf of the Pool. In the event of a petition or bankruptcy filing on behalf of the Pool or the adjustment of County debts under Chapter 9 of the Federal Bankruptcy Code, a court might hold that the Bond Owners do not have a valid and/or prior lien on the Pledged Tax Revenues where such amounts are deposited in the Pool and may not provide the Bond Owners with a priority interest in such amounts. In that circumstance, unless the Bond Owners could “trace” the funds that have been deposited in the Pool, the Bond Owners would be unsecured (rather than secured) creditors. There can be no assurance that the Bond Owners could successfully so trace the Pledged Tax Revenues. The Agency cannot predict the effects on the receipt of Pledged Tax Revenues if the Pool were to suffer significant

losses in its portfolio of investments or if the County or the Pool was to become insolvent or declare bankruptcy. See also “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure.”

Additional Obligations

The potential for the issuance of Parity Bonds could, in certain circumstances, increase the risks associated with the Agency’s payment of debt service on the Bonds in the event of a decrease in the Agency’s collection of Pledged Tax Revenues. However, Section 34177.5 of the Dissolution Act provides limited authority for successor agencies to issue bonds, and the Agency’s ability to issue Parity Bonds is subject to the requirements of the Dissolution Act as in effect from time to time. For additional information, see “SECURITY FOR THE BONDS—Parity Bonds.”

Secondary Market

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

No Validation Proceeding Undertaken

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

The Agency has not undertaken or endeavored to undertake any validation proceeding in connection with the issuance of the Bonds. The Agency and Bond Counsel have relied on the provisions of AB 1484 authorizing the issuance of the Bonds and specifying the related deadline for any challenge to the Bonds to be brought. Specifically, Section 34177.5(e) of the Dissolution Act provides that notwithstanding any other law, an action to challenge the issuance of bonds (such as the Bonds), the incurrence of indebtedness, the amendment of an enforceable obligation, or the execution of a financing agreement authorized under Section 34177.5, must be brought within thirty (30) days after the date on which the oversight board approves the resolution of the successor agency approving such financing. Such challenge period expired with respect to the Bonds and the Oversight Board Resolution in October of 2013.

It is possible that lawsuits such as the Syncora Lawsuit (see “CONCLUDING INFORMATION—Litigation” herein) or another lawsuit challenging the Dissolution Act or specific provisions thereof could be successful and that the mechanisms currently provided for under the Dissolution Act to provide for distribution of Pledged Tax Revenues to the Agency for payment on the Bonds could be impeded and result in a delinquency or default in the timely payment of principal of, and interest on, the Bonds.

However, the Indenture additionally provides that if, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act (upon which the distribution of Pledged Tax Revenues to the Agency rely) are invalidated by a final judicial decision, then Pledged Tax Revenues will include all tax revenues allocated to the payment of indebtedness pursuant to

Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution subject to any prior claims against such revenues under such section. Additionally, any action by a court to invalidate provisions of the Dissolution Act required for the timely payment of principal of, and interest on, the Bonds could be subject to the same issues regarding unconstitutional impairment of contracts and unconstitutional taking without just compensation as raised in the Syncora Lawsuit. The Agency believes that the aforementioned considerations would provide some protections against the adverse consequences upon the Agency and the availability of Pledged Tax Revenues for the payment of debt service on the Bonds in the event of successful challenges to the Dissolution Act or portions thereof. However, the Agency does not guarantee that any lawsuit challenging the Dissolution Act or portions thereof will not result in an outcome that may have a detrimental effect on the Agency's ability to timely pay debt service on the Bonds.

PROPERTY TAXATION IN CALIFORNIA

Property Tax Collection Procedures

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

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

Collections. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (i) initiating a civil action against the taxpayer, (ii) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (iii) filing a certificate of delinquency for record in the county recorder's office to obtain a lien on certain property of the taxpayer, and (iv) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

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

Delinquencies. The valuation of property is determined as of the January 1 lien date as equalized in August of each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due January 1 and become delinquent August 31.

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

Taxation of Commercial Aircraft. The definition of Pledged Tax Revenues excludes the assessment of private aircraft, but includes the assessment of commercial aircraft. Historically, the assessed value of commercial aircraft in the Project Area has comprised a significant portion of the total assessed value of all property in the Project Area. The assessed valuation of commercial aircraft is subject to fluctuations due to the nature of the property and the method of assessing it. See “RISK FACTORS—Property Tax and Valuation Procedures—Taxation of Commercial Aircraft.”

The process of assessing commercial aircraft takes into account the location of the aircraft during a representative period of time which is established for each tax year. State law prescribes a formula for determining whether and to what extent a particular aircraft is located in a taxing area, based on two factors: (1) flight and ground time, which is weighted 75% and (2) arrivals and departures, which is weighted 25%. The extent to which an aircraft spends time on the ground in a particular location, and the extent to which its flights originate or terminate at that location, will determine the percentage of its assessed value which is allocated to that location.

A commercial aircraft is valued at its appraised value by the County Assessor for tax purposes. The factors which are taken into account in determining the appraised value of a particular aircraft include the original cost of the aircraft, the cost of improvements made to the aircraft since its original purchase, the amount of depreciation and market re-sale data for the same type of aircraft. The method for depreciating the value of aircraft is prescribed annually by the State Board of Equalization. Currently the County Assessor uses the lower amount of the depreciated value of the aircraft (as determined by the County Assessor) or the Airline Price Guide value, which is an independent source for assessing the value of aircraft. The Agency cannot predict whether the current method for appraising aircraft values will be revised, or what impact any revision might have on the valuation of aircraft property in the Project Area. See “RISK FACTORS—Concentration of Unsecured Assessed Value” herein.

Property Tax Administrative Costs. In 1990, the Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions in proportion to the tax-derived revenues allocated to each. SB 1559 (Chapter 697, Statutes of 1992) explicitly includes redevelopment agencies among the jurisdictions which are subject to such charges. In addition, Sections 34182(e) and 34183(a) of the Dissolution Act allow administrative costs of the County Auditor-Controller for the cost of administering the provisions of the Dissolution Act, as well as the foregoing SB 1559 amounts, to be deducted from property tax revenues before moneys are deposited into the Redevelopment Property Tax Trust Fund. For fiscal year 2012-13, the County’s administrative charge to the Agency was \$118,911, and for fiscal year 2013-14, the County’s administrative charge to the Agency for the Project Area is expected to be \$122,138.

Negotiated Pass-Through Agreements. Prior to 1994, under the Redevelopment Law, a redevelopment agency could enter into an agreement to pay increment revenues to any taxing agency that has

territory located within a redevelopment project in an amount which in the agency's determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provide for payment or pass-through of tax increment revenue directed to the affected taxing agency, and, therefore, are commonly referred to as pass-through agreements or tax sharing agreements. The Agency agreements with affected taxing agencies are referred to herein as "Pass-Through Agreements." See "THE PROJECT AREA—Pass-Through Agreements." See also "SECURITY FOR THE BONDS—Tax Increment Financing" for additional discussion of the treatment of Pass-Through Agreements under the Dissolution Act.

Section 33676 Inflationary Taxing Agency Payments. Section 33676 of the Redevelopment Law, prior to amendment by AB 1290 (see "—Redevelopment Time Limits"), allowed (and in the case of school districts, required) an affected taxing entity to elect, by resolution prior to the adoption of a redevelopment plan, to receive property taxes generated from (1) increases in the tax rate levied by the affected entity; and (2) annual increases in the real property portion of the base year value up to the inflation limit of 2 percent provided in Article XIII A of the California Constitution. Pursuant to the State Court of Appeals decision in *Santa Ana Unified School District v. Orange County Development Agency*, the Agency makes payments to each of the school districts in the Project Area as provided by former Section 33676. Other than school districts that are deemed to have elected to receive payments pursuant to former Section 33676, no other taxing entity made such election under former Section 33676. (See APPENDIX A—"FISCAL CONSULTANT'S REPORT—Tax Increment Revenues—Inflationary Taxing Agency Payments.")

Recognized Obligation Payment Schedule. The Dissolution Act provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each six-month period, the Dissolution Act requires successor agencies to prepare and approve, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Pledged Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to the January 2 or June 1 distribution dates, as applicable. See "SECURITY FOR THE BONDS—Recognized Obligation Payment Schedule" and "RISK FACTORS—Recognized Obligation Payment Schedule."

Unitary Property

Assembly Bill ("AB") 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive that same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated to each tax rate area on a pro-rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro-rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property is changed from March 1 to January 1.

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

Article XIII A of the State Constitution

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

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

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

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

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

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

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

Appropriations Limitation – Article XIII B

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

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by an agency of proceeds of taxes levied by or on behalf of an agency within the meaning

of Article XIIB, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions. On the basis of these decisions, the Agency has not adopted an appropriations limit.

Articles XIIC and XIID of the State Constitution

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

Proposition 87

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

Redevelopment Time Limits

In 1993, the State legislature passed AB 1290, which, among other things, required redevelopment agencies to adopt time limits in each redevelopment plan specifying: 1) the last date to incur debt for a redevelopment project; 2) the last date to undertake redevelopment activity within a project area; and 3) the last date to collect tax increment revenue from a project area to repay debt. Pursuant to AB 1290, which took effect January 1, 1994, the Board of Supervisors adopted Ordinance No. 3924 on November 1, 1994, containing applicable limitations with respect to the Project Area. (See “THE PROJECT AREA—Redevelopment Plan Limitations.”)

Appeals of Assessed Values

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

In the County, a property owner desiring to reduce the assessed value of such owner’s property in any one year must submit an application to the County Assessment Appeals Board (the “Appeals Board”). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of each application by the staff of the County Assessor’s Office, the staff makes a recommendation to the Appeals Board on each application which has not been rejected for incompleteness or untimeliness or withdrawn. The Appeals Board holds a hearing and either reduces the assessment or confirms the assessment. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal’s filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as “ongoing hardship”), the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. Appeals for reduction in the “base year” value of an assessment, which generally must be made within three years of the date of change in ownership or completion of new construction that determined the base year, if successful, reduce the assessment for the year in which

the appeal is taken and prospectively thereafter. Moreover, in the case of any reduction in any one year of assessed value granted for “ongoing hardship” in the then current year, and also in any cases involving stipulated appeals for prior years relating to base year and personal property assessments, the property tax revenues from which Pledged Tax Revenues are derived attributable to such properties will be reduced in the then current year. In practice, such a reduced assessment may remain in effect beyond the year in which it is granted. See “THE PROJECT AREA—Major Taxable Property Owners” for information regarding the assessed valuations of the top ten property owners within the Project Area.

Proposition 8

Proposition 8, approved in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions under this code section may be initiated by the County Assessor or requested by the property owner.

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

Propositions 218 and 26

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. On November 2, 2010, California voters approved Proposition 26, the “Supermajority Vote to Pass New Taxes and Fees Act.” Proposition 26 amended Article XIII C of the California Constitution by adding an expansive definition for the term “tax,” which previously was not defined under the California Constitution. Pledged Tax Revenues securing the Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which are limited by Proposition 218 and outside of the scope of taxes which are limited by Proposition 26.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency’s ability to expend revenues.

THE PROJECT AREA



Overview of Project Area

The Project Area was established on July 15, 1986, by Ordinance No. 3595 of the County Board of Supervisors for the purpose of mitigating the impact of increased annual average cumulative noise levels at the John Wayne Airport resulting from an increase in the number of scheduled commercial departures permitted at John Wayne Airport and the related expansion of airport facilities in the mid-1980's. Historically, some of the programs of the Agency were related to the mitigation of noise generated by aircraft operating to and from John Wayne Airport. The Project Area is located in the central portion of the County surrounded by the cities of Costa Mesa, Irvine and Newport Beach. The Project Area, which covers approximately 1,090 acres, is comprised of three general areas described below. The assessed value of commercial airport at the John Wayne Airport accounts for a significant portion of total assessed value in the Project Area.

Property Uses in Project Area

In terms of land use, the majority of secured assessed value is used for commercial and residential purposes, with approximately 51.7% used for residential purposes and 43.6% used for commercial purposes. The remainder of secured assessed value in the Project Area is comprised of miscellaneous uses attributed to ancillary uses at John Wayne Airport. Unsecured value represents approximately 34% of the total 2013-14 assessed value in the Project Area. An estimated 82% of the unsecured value is represented by assessment of commercial aircraft at the John Wayne Airport which is located within the Project Area. The total assessed value of commercial aircraft in the Project Area for fiscal year 2013-14 is estimated at \$369,632,321, which accounted for 28% of total assessed value in the Project Area in fiscal year 2013-14. As such, the assessment of commercial aircraft in the Project Area represents a major component of total assessed value, and could contribute to future fluctuations in the Pledged Tax Revenues (see “RISK FACTORS—Concentration of Unsecured Assessed Value”). The definition of Pledged Tax Revenues excludes the assessment of private aircraft, but includes the assessment of commercial aircraft. The assessment of aircraft is based on Part 10 of the Revenue and Taxation Code, which describes the guidelines that assessors must follow in determining commercial aircraft valuation.

John Wayne Airport is a major, government-owned land use in the Project Area. As a result, land leases at John Wayne Airport can contribute significantly to the secured value within the Project Area. Of the top ten secured taxpayers in the Project Areas, only values related to Southwest Airlines are the result of a land lease at John Wayne Airport. Secured value at John Wayne Airport represents 5.8% of the total 2013-14 secured value in the Project Area.

The table below shows the historic amounts of unsecured value in the Project Area due to commercial aircraft. As can be seen in Table 2 below, six out of the top ten tax payers are airlines. See “RISK FACTORS—Property Tax and Valuation Procedures—*Taxation of Commercial Aircraft*” herein for a discussion of the valuation procedures applicable to commercial aircraft and “RISK FACTORS—Concentration of Unsecured Assessed Value” for a discussion of risks associated with unsecured assessed value in general and commercial aircraft in particular.

TABLE 1
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Historical Aircraft Assessments

<i>Unsecured Roll Year</i>	<i>Commercial Aircraft Value</i>	<i>Percent Change</i>	<i>Total Unsecured Roll</i>	<i>% of Unsecured Roll</i>	<i>Total Assessed Value</i>	<i>% Total Assessed Value</i>
2003-04	\$547,158,684	-4%	\$677,047,720	81%	\$1,191,462,487	46%
2004-05	539,308,355	-1	636,765,874	85	1,222,168,628	44
2005-06	513,981,607	-5	612,841,001	84	1,239,132,689	41
2006-07	372,759,071	-27	493,608,858	76	1,232,010,603	30
2007-08	418,087,739	12	544,584,293	77	1,333,756,359	31
2008-09	456,850,022	9	704,375,773	65	1,542,433,460	30
2009-10	415,236,254	-9	662,671,838	63	1,514,803,538	27
2010-11	452,011,545	9	612,962,648	74	1,377,769,404	33
2011-12	386,614,387	-14	535,260,521	72	1,300,731,939	30
2012-13	384,116,291	-1	511,842,287	75	1,324,329,197	29
2013-14 ⁽¹⁾	369,632,321 ⁽¹⁾	-4	452,217,717 ⁽¹⁾	82	1,336,998,588	28

⁽¹⁾ Preliminary Data
Source: Fiscal Consultant

Description of Project Sub-areas

The Project Area is comprised of three general areas, which are generally described as follows:

John Wayne Airport. The County is the proprietor of John Wayne Airport and operates the airport under appropriate permits and certificates from the California Department of Transportation, Division of Aeronautics and the Federal Aviation Administration (“FAA”). Currently, ten commercial and two all-cargo airlines operate at John Wayne Airport. In 2012, John Wayne Airport served almost 9 million passengers from the Thomas F. Riley Terminal and handled more than 17,000 tons of cargo. John Wayne Airport’s facilities include a 756,356 square foot passenger terminal and two parallel runways, only one of which serves commercial aircraft. In 2011, a major capital improvement project added a 282,000 square foot terminal with six new gates, a new parking structure and related improvements. Both runways also serve general aviation aircraft. John Wayne Airport has four parking structures and one off-airport parking lot accommodating approximately 8,356 vehicles.

John Wayne Airport is a federally certificated airport which is part of the national air transportation system, classified as a medium air traffic hub by the FAA. According to data published in 2012 by the Airports Council International, John Wayne Airport was the nation’s 44th busiest in terms of total passengers and 36th busiest in terms of aircraft operations. At present, John Wayne Airport is the only airport located in the County which provides regularly scheduled commercial air service. The total airport area available for aeronautical uses and activities is approximately 500 acres.

The table below shows the passenger enplanements at John Wayne Airport for years 2010-11 through 2012-13 for certain air carriers, based on passengers both arriving and departing.

	<u>2010-11</u>	<u>2011-12</u>		<u>2012-13</u>	
<i>Top Unsecured Airlines</i>	<i>Passengers</i>	<i>Passengers</i>	<i>% Change</i>	<i>Passengers</i>	<i>% Change</i>
Southwest Airlines	3,063,000	3,035,000	-1%	3,314,000	9%
American Airlines	1,204,000	1,170,000	-3%	1,153,000	-1%
United Airlines	817,000	1,052,000	29%	1,460,000	39%
Alaska Airlines	875,000	866,000	-1%	794,000	-8%
Delta Airlines	933,000	888,000	-5%	772,000	-13%
<u>Other</u>	<u>1,633,000</u>	<u>1,412,000</u>	<u>-14%</u>	<u>1,171,000</u>	<u>-17%</u>
Total	8,525,000	8,423,000	-1%	8,664,000	3%

Source: Bureau of Transportation Statistics, All Data June through May

John Wayne Airport serves both general aviation and scheduled commercial passenger airline operations. The flight paths to and from the airport generally require overflights of residential neighborhoods, including neighborhoods within the Project Area, a factor which has influenced the development of John Wayne Airport as described below.

Activities at John Wayne Airport have been restricted pursuant to the terms of a settlement agreement reached between the County, the City of Newport Beach and two community groups in 1985 (the “Settlement Agreement”). The original Settlement Agreement was scheduled to expire on December 31, 2005. In 2003, the original four signatories approved a series of amendments to the Settlement Agreement (the “2003 Amendment”) that extended the Agreement through December 31, 2015, allowed for additional facilities and operational capacity and continued to provide environmental protections for the local community. The four signatories began discussions of a second extension of the Settlement Agreement in early 2012 and the related environmental review process has begun.

The 2003 Amendment limited the number of annual passenger and average daily departures at the John Wayne Airport. Under the 2003 Amendment, John Wayne Airport was limited to 10.8 million annual passengers (“MAP”) and 85 Class A Average Daily Departures (“ADD”) for passenger service through December 31, 2015 (with four Class A ADD’s preferentially allocated for all-cargo service).

The Agency gives no assurance regarding whether a second extension of the Settlement Agreement will be approved. Significant portions of John Wayne Airport are exempt from property taxation.

Santa Ana Heights Community. The Santa Ana Heights community is directly south of the main runway of John Wayne Airport, separated by the Corona Del Mar Freeway. This area is comprised of approximately 450 acres and is characterized by a combination of at least eight distinct neighborhoods of single family homes, condominiums and multi-family apartment complexes, and areas of commercial development. Many of the residential units in the Santa Ana Heights community have received noise mitigation improvements financed from the proceeds of bonds previously issued by the Agency.

Upper Newport Bay Regional Park. Approximately 140 acres of the Project area are currently vacant and are included in the Upper Newport Bay Regional Park. This area is located completely within the City of Newport Beach.

Annexation and Incorporation

The entire Project Area (other than the area located within John Wayne Airport) has been annexed by the City of Newport Beach. Under Section 33213 of the Redevelopment Law, annexations of portions of the Project Area by other cities or the incorporation of portions of the Project Area do not affect the Agency’s jurisdiction over those areas or prevent the Agency from receiving Pledged Tax Revenues from those areas. In certain circumstances, jurisdiction over portions of the Project Area which have been annexed or been incorporated may be transferred to the annexing or incorporating city. However, under the Redevelopment Law, and specifically Section 33216, any such agreement cannot affect the availability of Pledged Tax Revenues to pay debt service on previously issued Agency debt to which the Pledged Tax Revenues or a portion thereof has been pledged. As a result, tax increment revenue from such annexed or incorporated portions of the Project Area remain Pledged Tax Revenues which are pledged to the payment of the Bonds.

Although the County generally lacks land use authority within the portions of the Project Area that have been annexed into the City of Newport Beach, the City of Newport Beach, the Prior Agency and the County agreed in that certain Pre-Annexation Agreement dated September 10, 2002 that the County shall have the right to approve amendments to the City of Newport Beach General Plan and Specific Plan impacting the portion of the Project Area to be annexed into the City following the approval of that agreement, to ensure such amendments will not adversely affect the generation of tax revenue within the Project Area.

Major Taxable Property Owners

The following table lists the ten largest taxable property owners within the Project Area. Based on fiscal year 2013-14 locally assessed taxable valuations, the top ten taxable property owners in the Project Area represent approximately 42% of the total Project Area secured and unsecured taxable value of \$1.35 billion. As can be seen from Table 2 below, six out of the ten largest taxable property owners own property with unsecured value. The Fiscal Consultant reports that none of the ten largest taxpayers for fiscal year 2013-14 have appeals pending for prior fiscal years as of the date of its report. See “RISK FACTORS—Concentration of Unsecured Assessed Value.”

TABLE 2
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Ten Largest Secured and Unsecured Roll Taxpayers

<i>Taxpayer Name</i>	<i># of Parcels</i>	<i>Personal Property Value</i>	<i>Land Value</i>	<i>Improvement Value</i>	<i>Total Assessed Value</i>	<i>% of Total Assessed Value</i>
Southwest Airlines Co	2	\$ 111,579,167	\$ 11,192,304	\$ 3,470,759	\$ 126,242,230	9.3%
100 Bayview LLC (office)	3	--	30,184,539	68,659,338	98,843,877	7.3
American Airlines Inc	3	79,886,288	5,469,937	1,746,172	87,102,397	6.4
SK Hart Bayview LLC (office)	4	--	11,142,713	43,647,365	54,790,078	4.1
United Airlines Inc	2	35,973,557	5,135,683	1,641,233	42,750,473	3.2
Alaska Airlines Inc	2	33,088,750	3,376,270	1,058,130	37,523,150	2.8
Delta Air Lines Inc	2	28,509,143	3,663,593	1,152,773	33,325,509	2.5
De Marco, James R TR	1	--	22,003,721	7,311,011	29,314,732	2.2
Goelete Trust (apt.)						
Continental Airlines Inc	3	23,664,103	2,951,682	939,045	27,554,830	2.0
HMH Properties Inc (hotel)	3	--	7,406,690	16,329,190	23,735,880	1.8
Subtotal (Top 10)	25	312,701,008	102,527,132	145,955,016	561,183,156	41.5
Total Assessed Value	1,493	\$452,217,717	\$ 501,951,939	\$398,001,946	\$ 1,352,171,602	100.0%

Source: Fiscal Consultant Report

The following Tables 3 and 4 list the ten largest secured taxpayers and the ten largest unsecured taxpayers, respectively. The top ten secured taxpayers and the top ten unsecured property taxpayers account for 31% and 38% of the total taxable value of property in the Project Area, respectively.

TABLE 3
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Ten Largest Secured Roll Taxpayers

<i>Taxpayer Name</i>	<i># of Parcels</i>	<i>Land Value</i>	<i>Improvement Value</i>	<i>Total Secured Value</i>	<i>% of Secured Value</i>
100 Bayview LLC	3	\$ 30,184,539	\$ 68,659,338	\$ 98,843,877	11.0%
SK Hart Bayview LLC	4	11,142,713	43,647,365	54,790,078	6.1
De Marco, James R TR Goelete Trust	1	22,003,721	7,311,011	29,314,732	3.3
HMH Properties Inc	3	7,406,690	16,329,190	23,735,880	2.6
Ferrado Bayview LLC	3	7,282,800	7,553,304	14,836,104	1.6
Southwest Airlines Co	2	11,192,304	3,470,759	14,663,063	1.6
AZNL-NTC LLC	1	5,716,970	7,007,122	12,724,092	1.4
Mickey Motors	2	3,612,742	7,913,424	11,526,166	1.3
Arden Realty Ltd Partnership	1	6,013,512	5,430,888	11,444,400	1.3
MK Las Casitas LLC	1	8,843,400	1,976,760	10,820,160	1.2
Subtotal (Top 10)	21	113,399,391	169,299,161	282,698,552	31.0
Total Secured Value	1,493	\$ 501,951,939	\$ 398,001,946	\$899,953,885	100.0%

Note: Total values exclusive of exemptions. None of the top 10 taxpayers are currently subject to an exemption.

Source: Fiscal Consultant Report

TABLE 4
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Ten Largest Unsecured Taxpayers and Historical Values

<i>Taxpayer Name</i>	<i>2010-11</i>		<i>2011-12</i>		<i>2012-13</i>		<i>2013-14</i>	
	<i>Personal Property Value</i>	<i>% of Unsecured Value</i>	<i>Personal Property Value</i>	<i>% of Unsecured Value</i>	<i>Personal Property Value</i>	<i>% of Unsecured Value</i>	<i>Personal Property Value</i>	<i>% of Unsecured Value</i>
Southwest Airlines Co	\$122,995,868	20%	\$111,604,894	21%	\$ 112,041,978	22%	\$ 111,579,167	25%
American Airlines Inc	68,842,720	11	70,337,258	13	79,119,326	15	79,886,288	18
United Airlines Inc	38,570,026	6	40,651,766	8	33,497,549	7	35,973,557	8
Alaska Airlines Inc	51,243,644	8	42,936,988	8	38,763,419	8	33,088,750	7
Delta Air Lines Inc	71,149,296	12	47,186,757	9	57,901,695	11	28,509,143	6
Continental Airlines Inc	36,576,461	6	34,464,836	6	25,941,200	5	23,664,103	5
US Airways Inc	9,308,812	2	18,322,119	3	22,581,236	4	15,019,028	3
Netjets Aviation Inc	25,474,366	4	21,193,185	4	17,089,631	3	14,515,064	3
Airtran Airways Inc	N/A		N/A		N/A		14,440,613	3
Skywest Airlines Inc	8,539,073	1	9,561,757	2	9,949,151	2	13,042,731	3
Subtotal (Top 10)	432,700,266	71	396,259,560	74	396,885,185	78	369,718,444	82
Total Unsecured	\$612,962,648	100%	\$535,260,521	100%	\$ 511,842,287	100%	\$ 452,217,717	100%

Note: Sorted based on top ten airlines in 2013-14 unsecured tax roll. Personal property value excludes personal aircraft, which is not included in tax increment pursuant to the Redevelopment Plan.

Source: Fiscal Consultant Report

Redevelopment Plan Limitations

Section 33333.2 of the Redevelopment Law required that all redevelopment plans adopted after October 1, 1976 contain a limitation on the number of dollars which may be allocated to a redevelopment agency under any redevelopment plan. Under this provision, taxes may not be allocated to a redevelopment agency beyond this limitation except by amendment of the redevelopment plan. The Redevelopment Plan for the Project Area establishes an annual limitation of \$10 million, subject to periodic adjustment for increases in the Consumer Price Index (as adjusted, \$20,948,358 for fiscal year 2012-13), on the aggregate amount of tax revenues which may be allocated to the Agency with respect to the Project Area. Based on current estimates, the Agency does not expect that the annual debt service on the Bonds and other Agency obligations in any year payable from current Pledged Tax Revenues will exceed the annual limit described above. The Agency has covenanted in the Indenture not to issue any obligations which would cause such limitation to be exceeded.

Section 33334.1 of the Redevelopment Law required that all redevelopment plans adopted after October 1, 1976 include a limit on the amount of bonded indebtedness that can be outstanding at one time. The Redevelopment Plan for the Project Area establishes a \$100 million limit on bonded indebtedness, subject to periodic adjustment for increases in the Consumer Price Index (as adjusted, the limit on the amount of bonded indebtedness for the Agency is \$209,483,577 for fiscal year 2012-13).

In 1993, the California Legislature enacted AB 1290. Among the changes to the Redevelopment Law accomplished by AB 1290 was a provision which limits the period of time for incurring and repaying loans, advances and indebtedness which are payable from tax increment revenues. In general, loans, advances and indebtedness may be incurred within the later of January 1, 2004, or 20 years from the date of original adoption of the Redevelopment Plan, a redevelopment plan may terminate not more than 40 years following the date of original adoption of the redevelopment plan, and loans, advances, and indebtedness may be repaid during a period extending not more than 10 years following the date of termination of the redevelopment plan.

In order to comply with AB 1290, the County adopted Ordinance No. 3924 on November 1, 1994, containing the applicable limitations with respect to its project areas. The following table summarizes the various financing limitations on the Project Area:

TABLE 5
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Redevelopment Plan Limits

<i>Last Date to Incur New Debt</i>	<i>Plan Expiration</i>	<i>Last Date to Repay Debt with Tax Increment</i>	<i>Annual Increment Limit⁽¹⁾</i>	<i>Bonded Debt⁽²⁾</i>
07/15/2006	07/15/2026	07/15/2036	\$20,948,358	\$209,483,577

⁽¹⁾ The original adopted annual limit on tax increment collections was \$10 million, subject to periodic adjustment for increases in the Consumer Price Index. The amount shown represents the current annual tax increment limit as so adjusted.

⁽²⁾ The original adopted annual limit on bonded indebtedness was \$100 million, subject to periodic adjustment for increases in the Consumer Price Index. The amount shown represents the current bonded indebtedness limit as so adjusted.

Source: Rosenow Spevacek Group, Inc.

Pass-Through Agreements

Prior to January 1, 1994, Redevelopment Law permitted redevelopment agencies to enter into tax sharing agreements with affected taxing entities for the purpose of alleviating any taxing entity fiscal detriment caused by the Project Area. Under these provisions, the Agency entered into agreements (referred to herein as the "Pass-Through Agreements"). The Pass-Through Agreements are treated as senior obligations with respect to the Bonds. The effect of these agreements with respect to the Pledged Tax Revenues are described below:

Orange County Flood Control District. Under the terms of an agreement with the Orange County Flood Control District (the “Flood Control District”), the Agency shall pay to the Flood Control District an amount each year equal to that portion of the Pledged Tax Revenues which are attributable to the general purpose tax levy by or for the Flood Control District. The pass-through factor for the Flood Control District was 2.34% in fiscal year 2013-14. For purposes of the projections shown on Table 8, the Fiscal Consultant has assumed that this rate remains constant.

Orange County Water District. Under the terms of an agreement with the Orange County Water District (the “Water District”), the Agency shall pay to the Water District an amount each year equal to (i) the sum of 100% of the Water District’s portion of the tax revenues that are allocated to and received by the Agency from properties within eight specified tax rate areas affected by the Water District agreement and (ii) a percentage of the Water District’s portion of the tax revenues that are received by the Agency from properties within two additional tax rate areas and that are attributable to increases in assessed value of the taxable property in the Project Area over the base year amount which are, or otherwise would be, calculated annually under subdivision (t) of Section 110.1 of the California Revenue and Taxation Code. The pass-through factor for the Water District was 0.58% in fiscal year 2013-14, and the Fiscal Consultant has assumed that this rate remains constant.

Section 33676 Disbursements to Other Taxing Agencies

Section 33676 of the Redevelopment Law, prior to amendment by AB 1290 (see “PROPERTY TAXATION IN CALIFORNIA—Redevelopment Time Limits”), allowed an affected taxing entity to elect, by resolution prior to the adoption of a redevelopment plan, to receive property taxes generated from:

1. increases in the tax rate levied by the affected entity; and
2. annual increases in the real property portion of the base year value up to the inflation limit of 2 percent provided in Article XIII A of the California Constitution.

Former Section 33676 provided that each school district was required to adopt the resolution and other taxing entities were permitted- to ad-opt the resolution. The elections could not be made if the Taxing Agency entered into a pass-through agreement with the redevelopment agency. No entities have made such elections under the former Section 33676.

Notwithstanding the fact that no entities made such elections under former Section 33676, recent litigation indicates that the possibility exists for school districts which have not entered into separate tax sharing agreements with the Agency to make such elections in the future. In the case of *Santa Ana Unified School District v. Orange County Development Agency*, the State Court of Appeals upheld the determination of a trial court that although the County adopted the Redevelopment Plan in 1986 and the Santa Ana Unified School District failed to submit a resolution electing to receive a proportionate share of property tax revenues attributable to inflationary growth as determined under Section 110.1(f) of the Revenue and Taxation Code, the school district should nevertheless be deemed entitled to receive such revenues under Health and Safety Code Section 33676 as in effect as of 1986.

The Agency has commenced making payments to Santa Ana Unified School District and the other school districts in the Project Area as required by the court decision discussed above. The Fiscal Consultant Report and the projections contained in Tables 8 and 10 assume that payments will be made to each of the school districts in accordance with their respective interests in the 1% tax levy. These 33676 Amounts are treated as senior obligations with respect to the Bonds. See APPENDIX F—“FISCAL CONSULTANT’S REPORT—TAX INCREMENT REVENUE PROJECTIONS—*Tax Rates*” and “—*Inflationary Taxing Agency Payments*” for a listing of each school district and their weighted share of the property tax revenue for the Project Area.

Payments to Orange County

Under Section 33670.9 of the Redevelopment Law, the Agency is required for a period of 20 years (commencing on July 1, 1996) to transfer to the general fund of the County of Orange an amount equal to \$4,000,000 of non-housing tax increment annually in two equal installments on June 15 and February 15 of each year until 2016. These contributions are made under the County Bankruptcy Recovery Plan which has been approved by the United States Bankruptcy Court in its order confirming the County's Modified Second Amended Plan of Adjustment. The statute prohibits the Agency from incurring any obligation with respect to loans, advances of money, or indebtedness, whether funded, refunded, assumed, or otherwise that would impair its ability to make this transfer.

Historically, the Agency has made the payment by contributing \$1.3 million in tax increment revenues derived from its Neighborhood Development and Preservation Project, with the remaining \$2.7 million being paid from the Project Area. The Agency plans to pay \$2 million from the Neighborhood Development and Preservation Project and \$2 million from the Project Area moving forward. The Agency and the County have determined that the Agency's transfer obligations under Section 33670.9 are not secured by a prior express pledge of tax increment revenue and are therefore subordinate to debt service on the Bonds.

Transfer obligations under Section 33670.9 do not prohibit the Agency from pledging Pledged Tax Revenues to payment of the Bonds, as is contemplated under the Indenture. The Agency has determined that it will have sufficient Pledged Tax Revenues to enable it to pay debt service on the Bonds and all other obligations of the Agency, as well as to make transfers to the County as required by Section 33670.9.

Appeals

As previously discussed under "PROPERTY TAXATION IN CALIFORNIA—Appeals of Assessed Values," property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board.

The following table sets forth information regarding historical appeals in the Project Area.

TABLE 6
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Historical Assessment Appeals
For Appeals Reviewed 2008 through September 10, 2013

Appeal Status	2008	2009	2010	2011	2012	5 Year Total
Stipulated/Reduced	12	13	6	4	0	35
Withdrawn/Denied	18	16	8	8	2	52
Pending	0	0	0	0	0	0
Total	30	29	14	12	2	87
Total Value of Properties Under Appeal	\$122,476,241	\$286,471,592	\$24,631,046	\$12,277,110	\$1,152,412	\$447,008,401
Portion of Project Area	7.94%	18.91%	1.79%	0.94%	0.09%	
Total Project Area Secured and Unsecured Value	\$1,542,433,460	\$1,514,803,538	\$1,377,769,404	\$1,300,731,939	\$1,324,329,197	
Requested Reductions	\$10,126,545	\$48,856,569	\$6,763,051	\$1,210,525	--	\$66,956,690
Granted Reductions	\$4,174,224	\$36,899,569	\$2,968,612	\$763,500	--	\$44,805,905
Portion of Total Project Area Value	0.271%	2.436%	0.215%	0.059%	0.000%	

Historical Rate Requested Reduction Value vs. Granted Value for Stipulated/Reduced Values Only

59.9%

Note: Only 3 appeals of aircraft values have been submitted between 2008 and 2012. None were stipulated or reduced.

Source: Fiscal Consultant Report.

Source: County of Orange Clerk of the Board of Supervisors.

PLEDGED TAX REVENUES

Pledged Tax Revenues (as described in the section “SECURITY FOR THE BONDS” herein) are to be deposited in the Redevelopment Obligation Retirement Fund, and thereafter transferred by the Agency to the Debt Service Fund, administered by the Trustee and applied to the payment of the principal of and interest on the Bonds.

Schedule of Historical Pledged Tax Revenues

The following table is a schedule of the taxable valuations and resulting Pledged Tax Revenues in the Project Area for the fiscal years 2008-09 through 2012-13. The base year valuations for the Project Area were established in fiscal year 1985-86.

TABLE 7
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Historical Taxable Valuations and Tax Revenues

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>
Secured	\$ 838,057,687	\$ 852,131,700	\$ 764,806,756	\$ 765,471,418	\$ 812,486,910
Unsecured	704,375,773	662,671,838	612,962,648	535,260,521	511,842,287
Total Assessed Value	1,542,433,460	1,514,803,538	1,377,769,404	1,300,731,939	1,324,329,197
Less: Base Year Value	(226,651,538)	(226,651,538)	(226,651,538)	(226,651,538)	(226,651,538)
Incremental Assessed Value⁽¹⁾	\$ 1,315,781,922	\$ 1,288,152,000	\$ 1,151,117,866	\$ 1,074,080,401	\$ 1,097,677,659
 Tax Levy Rate	 1.00%	 1.00%	 1.00%	 1.00%	 1.00%
 Tax Increment	 13,157,819	 12,881,520	 11,511,179	 10,740,804	 10,976,777
Less: HSC 33676 Payment	(337,229)	(356,602)	(354,102)	(361,580)	(361,782)
Less: O.C. Flood Control Pass Through	(333,419)	(266,121)	(251,650)	(92,692)	(134,597)
Less: O.C. Water District Pass Through	(13,202)	(12,382)	(9,134)	(11,851)	(5,973)
Less: Low/Mod Housing Set Aside ⁽²⁾	(2,631,564)	(2,576,304)	(2,302,236)	(2,148,161)	(2,195,355)
Less: County Admin. Fees ⁽³⁾	(112,149)	(107,418)	(114,007)	(109,352)	(118,911)
Net Estimated Tax Revenues	9,730,256	9,562,693	8,480,050	8,017,168	8,160,159
Actual Receipts/Deposits^(4/5)	\$ 10,680,521	\$ 9,493,008	\$ 7,916,849	\$ 7,760,774	\$ 8,176,137

⁽¹⁾ Net of non-homeowner exemptions.

⁽²⁾ Actual housing set aside reported for FY 2008-09 through 2010-11. Following dissolution, set aside is no longer required. For purposes of illustrating Pledged Tax Revenues, a 20% housing allocation is shown for FY 2011-12 and 2012-13 though these revenues were directed into the County's Redevelopment Obligation Retirement Fund ("RORF").

⁽³⁾ Actual administrative fee (SB2557) levied per the Orange County Auditor Controller. Note fee charge lags by a year, e.g. the 2008-09 charge is for the FY 2007-08.

⁽⁴⁾ Prior to dissolution, amounts shown were allocated OCDA. Post dissolution, amounts are deposited into Redevelopment Property Tax Trust Fund ("RPTTF") to fund debt service. Under current Health and Safety Code, the 20% housing set aside was eliminated; at least 8.16% of debt service on the Bonds is payable from such former housing set aside funds. See "SECURITY FOR THE BONDS" above.

⁽⁵⁾ The Auditor Controller will process current year refunds, or other changes in the net levy subsequent to the equalized roll, which will produce minor variations between estimated revenues and actual collections. Amounts shown for FY 2011-12 and 2012-13 reflect adjustment for housing set aside.

Source: Fiscal Consultant Report; County Auditor Controller historic reports.

Projected Taxable Valuation and Pledged Tax Revenues

The Agency has retained Rosenow Spevacek Group, Inc. of Santa Ana, California to provide projections of taxable valuation and Pledged Tax Revenues from developments in the Project Area. The Agency believes the assumptions (set forth in the footnotes below and APPENDIX F—"FISCAL CONSULTANT'S REPORT") upon which the projections are based are reasonable; however, some assumptions may not materialize and unanticipated events and circumstances may occur (see "RISK FACTORS"). Therefore, the actual Pledged Tax Revenues received during the forecast period may vary from the projections and the variations may be material. A summary of the projected taxable valuation and Pledged Tax Revenues is as follows:

TABLE 8
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Projected Taxable Valuations and Pledged Tax Revenues

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
Secured ⁽¹⁾	\$ 884,780,871	\$ 905,626,895	\$ 923,739,433	\$ 942,214,222	\$ 961,058,506
Unsecured ⁽²⁾	452,217,717	444,982,234	437,862,518	430,856,718	423,963,010
Total Assessed Value	\$1,336,998,588	\$ 1,350,609,129	\$1,361,601,951	\$1,373,070,940	\$1,385,021,516
Less: Base Year Value	226,651,538	226,651,538	226,651,538	226,651,538	226,651,538
Incremental Assessed Value	\$1,110,347,050	\$1,123,957,591	\$1,134,950,413	\$1,146,419,402	\$1,158,369,978
 Tax Levy Rate	 1.00%	 1.00%	 1.00%	 1.00%	 1.00%
 Estimated Gross Tax Increment	 11,103,471	 11,239,576	 11,349,504	 11,464,194	 11,583,700
Less: HSC 33676 Payment	(459,230)	(483,277)	(507,805)	(532,823)	(558,341)
Less: O.C. Flood Control Pass Through	(260,307)	(263,498)	(266,075)	(268,764)	(271,565)
Less: O.C. Water District Pass Through	(64,291)	(65,080)	(65,716)	(66,380)	(67,072)
Less: Low/Mod Housing Set Aside ⁽³⁾	(2,128,848)	(2,151,260)	(2,168,340)	(2,186,274)	(2,205,072)
Less: County Admin. Fees	(122,138)	(123,635)	(124,845)	(126,106)	(127,421)
Pledged Tax Revenues	\$ 8,068,656	\$ 8,152,827	\$ 8,216,724	\$ 8,283,847	\$ 8,354,229

⁽¹⁾ Assumed growth rate of 2%.

⁽²⁾ Five year reduction of 1.6%.

⁽³⁾ Under current Health and Safety Code, the 20% housing set aside was eliminated. It is shown here to assure a conservative projection, although 8.16% of debt service on the Bonds is payable from such housing set aside funds. See "SECURITY FOR THE BONDS" above.

Note: Annual bankruptcy payments not shown, as such payments are subordinate to debt service. A total of up to \$4 million per year payment from both Agency project areas are required from 2013-14 to 2016-17. See "THE PROJECT AREA—Payments to Orange County" above.

Source: Fiscal Consultant Report

Annual Debt Service

Set forth below is the annualized debt service for the term of the Bonds.

TABLE 9
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Annual Debt Service

<i>Maturity Dates</i>	<i>Principal</i>	<i>Interest</i>	<i>Semi-Annual Debt Service</i>	<i>Annual Debt Service</i>
September 1, 2014	\$ 1,485,000	\$ 644,831.11	\$ 2,129,831.11	\$ 2,129,831.11
March 1, 2015	875,000	478,025.00	1,353,025.00	
September 1, 2015	895,000	460,525.00	1,355,525.00	2,708,550.00
March 1, 2016	915,000	442,625.00	1,357,625.00	
September 1, 2016	935,000	419,750.00	1,354,750.00	2,712,375.00
March 1, 2017	960,000	396,375.00	1,356,375.00	
September 1, 2017	985,000	372,375.00	1,357,375.00	2,713,750.00
March 1, 2018	1,010,000	347,750.00	1,357,750.00	
September 1, 2018	1,035,000	322,500.00	1,357,500.00	2,715,250.00
March 1, 2019	1,060,000	296,625.00	1,356,625.00	
September 1, 2019	1,085,000	270,125.00	1,355,125.00	2,711,750.00
March 1, 2020	1,110,000	243,000.00	1,353,000.00	
September 1, 2020	1,140,000	215,250.00	1,355,250.00	2,708,250.00
March 1, 2021	1,170,000	186,750.00	1,356,750.00	
September 1, 2021	1,200,000	157,500.00	1,357,500.00	2,714,250.00
March 1, 2022	1,230,000	127,500.00	1,357,500.00	
September 1, 2022	1,260,000	96,750.00	1,356,750.00	2,714,250.00
March 1, 2023	1,290,000	65,250.00	1,355,250.00	
September 1, 2023	1,320,000	33,000.00	1,353,000.00	2,708,250.00
Total	\$ 20,960,000	\$ 5,576,506.11	\$ 26,536,506.11	\$ 26,536,506.11

Debt Service Coverage

Set forth below is the estimated debt service coverage of the Bonds using fiscal year 2013-14 Pledged Tax Revenues without additional growth through maturity exclusive of a portion of former housing set aside funds properly comprising part of Pledged Tax Revenues. If such amounts were included, debt service coverage would be greater. See "SECURITY FOR THE BONDS."

TABLE 10
SUCCESSOR AGENCY TO THE
ORANGE COUNTY DEVELOPMENT AGENCY
Santa Ana Heights Project Area
Annual Debt Service Coverage (No Growth)

<i>Bond Year Ending September 1</i>	<i>No Growth Pledged Tax Revenues</i>	<i>Annual Debt Service</i>	<i>Debt Service Coverage</i>
2014	\$ 8,068,656	\$ 2,129,831.11	379%
2015	8,068,656	2,708,550.00	298%
2016	8,068,656	2,712,375.00	297%
2017	8,068,656	2,713,750.00	297%
2018	8,068,656	2,715,250.00	297%
2019	8,068,656	2,711,750.00	298%
2010	8,068,656	2,708,250.00	298%
2021	8,068,656	2,714,250.00	297%
2022	8,068,656	2,714,250.00	297%
2023	8,068,656	2,708,250.00	298%

Source: The Financial Advisor and the Underwriter.

Prior Agency and Agency Finances

The Prior Agency's audited financial statements for the period of July 1, 2011 through January 31, 2012 and the Agency's audited financial statements for the period of February 1, 2012 through June 30, 2012 (together, the "2011-12 Financial Statements") are found in APPENDIX E. The 2011-12 Financial Statements have been audited by Vavrinek, Trine, Day & Co. LLP, independent certified public accountants (the "Auditor"), as stated in the Auditor's report. *The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures related to this Official Statement.*

CONCLUDING INFORMATION

Underwriting

The Bonds have been sold to De La Rosa & Co. (the "Underwriter") at a net interest cost of 3.51969%. The original purchase price (including the reoffering premium) to be paid for the Bonds is \$22,580,108.90. The Underwriter intends to offer the Bonds to the public initially at the yield set forth on the cover page of this Official Statement, which yield may subsequently change without any requirement of prior notice.

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

Verification of Mathematical Accuracy

Causey Demgen & Moore, Denver, Colorado, an independent accountant, upon delivery of the Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to

them that were prepared by the Agency, relating to the sufficiency of moneys deposited into the 2003 Bonds Escrow Agreement, respectively, to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements with respect to the 2003 Bonds.

The report of Causey Demgen & Moore will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or date or information coming to its attention, subsequent to the date of its report.

Legal Opinion

The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the Bonds and stating that interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is also exempt from personal income taxes of the State of California under present State income tax laws, will be furnished to the purchaser at the time of delivery of the Bonds at the expense of the Agency. Compensation for Bond Counsel's services is entirely contingent upon the sale and delivery of the Bonds.

A copy of the proposed form of Bond Counsel's final approving opinion with respect to the Bonds is attached hereto as Appendix B.

The legal opinion is only as to legality and is not intended to be nor is it to be interpreted or relied upon as a disclosure document or an express or implied recommendation as to the investment quality of the Bonds.

In addition, certain legal matters will be passed on by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel.

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount that accrues to the Owner of the Bonds is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The amount by which a beneficial owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the beneficial owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a

result of the amortization of bond premium may result in a beneficial owner realizing a taxable gain when a Bond is sold by the beneficial owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the beneficial owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the County, the Agency and others and is subject to the condition that the County and the Agency comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the delivery of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of delivery of the Bonds. The Agency has covenanted to comply with all such requirements. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring after the date of delivery of the Bonds may affect the tax status of the interest on the Bonds.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions taken or events are taken or do occur. Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for income tax purposes provided that the Agency continues to comply with certain requirements of the Code, the ownership of and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur.

Litigation

There is no action, suit or proceeding known to the Agency to be pending and notice of which has been served upon and received by the Agency, or threatened, restraining or enjoining the execution or delivery of the Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the Agency taken with respect to any of the foregoing. However, the lawsuit described below relate to issues that may affect the distribution of property tax revenues or other moneys to the Agency under the Dissolution Act.

The Agency is informed that a number of successor agencies, cities and other entities have filed judicial actions challenging the legality of various provisions of the Dissolution Act. One such challenge is an action filed on August 1, 2012, by Syncora Guarantee Inc. and Syncora Capital Assurance Inc. (collectively, "Syncora") against the State, the State Controller, the state Director of Finance, and the Auditor-Controller of San Bernardino County on his own behalf and as the representative of all other County Auditors in the State

(Superior Court of the State of California, county of Sacramento, Case No. 34-2012-80001215). Syncora are monoline financial guaranty insurers domiciled in the state of New York, and as such, provide credit enhancement on bonds issued by state and local governments and do not sell other kinds of insurance such as life, health, or property insurance. Syncora provided bond insurance and other related insurance policies for bonds issued by former California redevelopment agencies.

The complaint alleged that the Dissolution Act, and specifically the “Redistribution Provisions” thereof (i.e., California Health and Safety Code Sections 34172(d), 34174, 34177(d), 34183(a)(4), and 34188) violate the “contract clauses” of the United States and California Constitutions (U.S. Const. art. 1, § 10, cl.1; Cal. Const. art. 1, § 9) because they unconstitutionally impair the contracts among the former redevelopment agencies, bondholders and Syncora. The complaint also alleged that the Redistribution Provisions violate the “Takings clauses” of the United States and California Constitutions (U.S. Const. amend. V; Cal Const. art. 1 § 19) because they unconstitutionally take and appropriate bondholders’ and Syncora’s contractual right to critical security mechanisms without just compensation.

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

The Agency is unable to predict the likely outcome of any actions that may be pending challenging the Dissolution Act or certain of the provisions or the possible impact, if any, of their outcomes on the distribution of property tax revenues or other moneys to the Agency under the Dissolution Act, or on the Agency’s ability to make payments of principal of and interest on its Bonds, including the Series Bonds.

Legality for Investment in California

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

The Superintendent of Banks of the State of California has previously ruled that obligations of a redevelopment agency are eligible for savings bank investment in California.

Ratings

Standard & Poor’s has assigned its underlying municipal bond rating of “A-” on the Bonds. These ratings reflect the view of Standard & Poor’s as to the credit quality of the Bonds. The ratings reflect only the view of Standard & Poor’s, and explanation of the significance of the ratings may be obtained from Standard & Poor’s Ratings Group, 55 Water Street, New York, New York 10041 (212) 438-2124. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Standard & Poor’s, if in the judgment of Standard & Poor’s, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

Continuing Disclosure

Pursuant to a Continuing Disclosure Certificate (the “Disclosure Agreement”), the Agency has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) certain annual financial information and operating data, including its postaudit of the financial transactions and records of the Successor Agency for the applicable fiscal year pursuant to Section 34177(n) of the Dissolution Act and information of the type set forth in this Official Statement under the heading “PLEDGED TAX REVENUES—Schedule of Historical Pledged Tax Revenues.” In addition, the Agency has agreed to provide, or cause to be provided, to the MSRB in a timely manner, not in excess of ten business days after the occurrence of any such event, notice of the following “Listed Events”: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security; (7) modifications to rights of security holders, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Obligated Person (as defined in APPENDIX D—“FORM OF CONTINUING DISCLOSURE CERTIFICATE”); (13) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission.

As previously described herein, the Prior Agency was statutorily dissolved on February 1, 2012, and the Agency commenced operations as of the same date. Therefore, the Prior Agency operated for only seven months in fiscal year ended June 30, 2012, and the Agency operated for the last five months of fiscal year ended June 30, 2012. Commencing with the Comprehensive Annual Financial Report (i.e., audited financial statements) of the County for the fiscal year ended June 30, 2012, the activities of the Agency are reported as a fiduciary trust fund as part of the County’s Comprehensive Annual Financial Report, which is in accordance with guidance issued by the DOF and available on its website as of February 4, 2013, interpreting Section 34177(n) of the California Health and Safety Code concerning certain successor agency post-audit obligations.

The final seven months of activity of the Prior Agency prior to its February 1, 2012 dissolution were reported in the governmental funds of the County in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012, but are separately reported in audited financial statements of the Agency for the period.

Pursuant to the Dissolution Act, the housing assets, housing obligations, and housing activities of the Prior Agency have been transferred to the Orange County Housing Authority after the dissolution date and have been reported in a special fund in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012, but are also separately reported in audited financial statements of the Agency for the period.

See APPENDIX E—“AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2011-12,” and in particular Note 2 of the financial statements for the earlier period therein. A complete copy of the County’s Comprehensive Annual Financial Report for fiscal year ended June 30, 2012 can be obtained from the County’s Finance Department.

In accordance with accounting principles generally accepted in the United States of America which provide guidance for determining which governmental activities, organizations and functions should be included in the reporting entity, the Comprehensive Annual Financial Report presents information on the activities of the reporting entity, which includes the County (the primary government) and related but separate legal entities such as the Orange County Public Financing Authority, South Orange County Public Financing Authority, the Prior Agency, the Agency, the Orange County Housing Authority and others. Such accounting presentation, however, does not change the separate legal status of the entities. With regard to the Agency in particular, as set forth in Section 34173(g) of the Dissolution Act, “A successor agency is a separate public entity from the public agency that provides for its governance and the two entities shall not merge.”

A failure by the Agency to comply with the provisions of the Disclosure Agreement is not an event of default under the Indenture (although the holders and beneficial owners of the Bonds do have remedies at law and in equity). However, a failure to comply with the provisions of the Disclosure Agreement must be reported in accordance with the SEC Rule 15c2-12(b)(5) and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds. Therefore, a failure by the Agency to comply with the provisions of the Disclosure Agreement may adversely affect the marketability of the Bonds on the secondary market.

The Agency may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Agency or the type of business conducted thereby; (2) the Disclosure Agreement as so amended would have complied with the requirements of Rule 15c2-12 as of the date of the Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the Agency will have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Agency and the Dissemination Agent, to the same effect as set forth in clause (2) above; (4) the Agency will have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Agency, to the effect that the amendment does not materially impair the interests of the Owners; and (5) the Agency will have delivered copies of such opinion and amendment to the MSRB. Initially, the Agency will act as its own Dissemination Agent.

In addition, the Agency’s obligations under the Disclosure Agreement will terminate upon the defeasance or payment in full of all of the Bonds. The provisions of the Disclosure Agreement are intended to be for the benefit of the Owners and will be enforceable by the Trustee on behalf of such Owners, provided that any enforcement action by any such person will be limited to a right to obtain specific enforcement of the Agency’s obligations under the Disclosure Agreement and any failure by the Agency to comply with the provisions thereof will not be an event of default under the Indenture. See APPENDIX D—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

During the last five years, the County and certain of its related entities, including the Agency, have failed to comply in certain respects with continuing disclosure obligations related to outstanding bond indebtedness. More specifically, as to the Agency:

(i) For some outstanding bonds, in some years, the Agency failed to file the financial and operating data on a timely basis. In almost every case, the report was filed by April 1, a date which was later than 270 days from the end of the County’s fiscal year, albeit only by a few days. In one case certain financial data for the Prior Bonds was filed June 1, 2011, two months late; and

(ii) The Agency did not file material event notices, or filed late material event notices, regarding changes to the ratings of certain of its obligations, including as a result of the downgrades of bond insurance companies that insured outstanding Agency bonds.

The Agency has made additional filings to provide certain of the previously omitted information; provided that with respect to ratings changes, notice has been provided only of the existing rating or ratings applicable to each outstanding series of bonds. The Agency believes that it is now in compliance in all material respects with its prior undertakings for each of its series of bonds that remain outstanding.

With respect to the County and its related entities, other than the Agency, the failure to comply fell into three general categories: (i) failure to provide significant event notices with respect to changes in the ratings of outstanding bonds, primarily related to changes in the ratings of various bond insurers insuring the bonds of the County or its related entities; (ii) late filing of annual reports with respect to a number of the bond issues, in some cases by only a day and in other cases by a longer period of time; (iii) failure to file audited financial statements as a part of annual reports. Copies of the County's audited financial statements were available to investors from other sources but were not filed concurrently with certain of the annual reports, as required by the continuing disclosure undertakings. In addition, with respect to the County of Orange Taxable Refunding Pension Obligation Bonds Series 1996A and the County of Orange Taxable Refunding Pension Obligation Bonds Series 1997A the County failed to file its annual report for any year following fiscal year 2007-08 or to file notice of ratings changes associated with bond insurer ratings downgrades. The failure to file was based on the mistaken view that the County's economic defeasance of these bonds through a refinancing terminated the continuing disclosure obligation, when, in fact, no termination occurred.

The County and various related entities have made additional filings to provide certain of the previously omitted information; provided that with respect to ratings changes, notice has been provided only of the existing rating or ratings applicable to each outstanding series of bonds. Each of these filings may be accessed through EMMA. The Agency believes that the County and its related entities are now in compliance in all material respects with the prior undertakings for all series of bonds that remain outstanding.

In order to ensure ongoing compliance by the Agency with its continuing disclosure undertakings, (i) Agency and County staff have conducted a review of all Agency continuing disclosure undertakings to ensure filing due dates are correctly documented in policies and procedures and a single County staff member has been assigned primary responsibility to monitor compliance; and (ii) the County has contracted with a consultant to assist in filing accurate, complete and timely disclosure reports on behalf of the Agency.

Miscellaneous

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

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

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

SUCCESSOR AGENCY TO THE ORANGE COUNTY
DEVELOPMENT AGENCY

By: /s/ Suzanne Luster *Suzanne Luster*
Public Finance Manager of the County of Orange,
California, acting in her capacity as designee of the
Successor Agency to the Orange County
Development Agency

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APPENDIX A

DEFINITIONS

The following are definitions of certain terms contained in the Indenture and used in this Official Statement.

“Act” means Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code.

“Annual Debt Service” means, for any Bond Year, the principal and interest, including scheduled sinking fund payments, payable on the Outstanding Bonds in such Bond Year.

“Bond Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, an attorney or firm of attorneys acceptable to the Successor Agency of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions.

“Bond”, “Bonds” or “2014 Bonds” means the Santa Ana Heights Project Area, Tax Allocation Refunding Bonds, Issue of 2014, authorized by and at any time Outstanding pursuant to the Indenture.

“Bond Year” means the twelve (12) month period commencing on September 2 of each year, provided that the first Bond Year shall extend from the Delivery Date to September 1, 2014.

“Bondowner” or “Owner”, or any similar term, means any person who shall be the registered owner or his duly authorized attorney, trustee or representative of any Outstanding Bond.

“Business Day” means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city in which the corporate trust office of the Trustee is located are authorized to close, or (ii) a day on which the New York Stock Exchange is closed.

“Certificate” or “Certificate of the Successor Agency” means a Written Certificate of the Successor Agency.

“Chairman” means the chairman of the Successor Agency or other duly appointed officer of the Successor Agency authorized by the Successor Agency by resolution or bylaw to perform the functions of the chairman in the event of the chairman’s absence or disqualification.

“Code” means the Internal Revenue Code of 1986, as amended, and any regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Computation Year” means, with respect to the Bonds, the period beginning on the Delivery Date and ending on September 1, 2014, and each 12-month period ending on September 1 thereafter until there are no longer any Bonds Outstanding.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Certificate of the Successor Agency dated the Delivery Date as originally executed and as it may be amended from time to time in accordance with the terms in the Indenture.

“Corporate Trust Office” means the corporate trust office of the Trustee, currently at U.S. Bank National Association, except for exchange, surrender and payment of the Bonds, in which case “Trust Office” shall refer to the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota, or such other or additional offices as may be specified to the Successor Agency by the Trustee in writing.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Bonds including the initial fees and expenses of the Trustee, rating agency fees, legal fees and expenses, costs of printing the Bonds and Official Statement, fees of financial consultants and other fees and expenses set forth in a Written Certificate of the Successor Agency.

“Costs of Issuance Fund” means the trust fund established in Section 3.3 of the Indenture.

“County” means the County of Orange, California.

“Debt Service Fund” means that trust fund established in Section 4.2 of the Indenture.

“Defeasance Securities” means (1) cash, (2) non-callable direct obligations of the United States of America (“Treasures”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasures held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasures are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (5) securities eligible for “AAA” defeasance under then existing criteria of S&P or any combination of the foregoing.

“Delivery Date” means the date on which the Bonds are delivered to the initial purchaser in the Indenture.

“Dissolution Act” means Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State of California.

“DOF” means the California Department of Finance.

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

“Fiscal Year” means any twelve (12) month period beginning on July 1st and ending on the next following June 30th.

“Fund or Account” means any of the funds or accounts referred to in the Indenture.

“Indenture” means that certain Indenture of Trust dated as of January 1, 2014, between the Successor Agency and U.S. Bank National Association, approved by Resolution No. 13-107, adopted

by the Successor Agency on October 22, 2013, and Resolution No. 13-004, adopted by the Oversight Board on October 24, 2013, authorizing the issuance of the Bonds.

“Independent Financial Consultant” “Independent Engineer” “Independent Certified Public Accountant” or “Independent Redevelopment Consultant” means any individual or firm engaged in the profession involved, appointed by the Successor Agency, and who, or each of whom, has a favorable reputation in the field in which his/her opinion or certificate will be given, and:

- (1) is in fact independent and not under domination of the Successor Agency;
- (2) does not have any substantial interest, direct or indirect, with the Successor Agency; and
- (3) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

“Interest Account” means the account by that name referenced in Section 4.3 of the Indenture.

“Interest Payment Date” means March 1 and September 1, commencing September 1, 2014 so long as any of the Bonds remain Outstanding under the Indenture.

“Law” means the Community Redevelopment Law of the State of California as cited in the recitals in the Indenture.

“Maximum Annual Debt Service” means the largest of the sums obtained for any Bond Year after the computation is made, by totaling the following for each such Bond Year:

- (1) The principal amount of all Bonds and Parity Bonds, if any, and the amount of any sinking account payments payable in such Bond Year; and
- (2) The interest which would be due during such Bond Year on the aggregate principal amount of Bonds and Parity Bonds which would be outstanding in such Bond Year if the Bonds and Parity Bonds outstanding on the date of such computation were to mature or be redeemed in accordance with the maturity schedules for the Bonds and Parity Bonds. At the time and for the purpose of making such computation, the amount of term Bonds and term Parity Bonds already retired in advance of the above-mentioned schedules shall be deducted pro rata from the remaining amounts thereon.

“Opinion of Counsel” means a written opinion of an attorney or firm of attorneys of favorable reputation in the field of municipal bond law. Any opinion of such counsel may be based upon, insofar as it is related to factual matters, information which is in the possession of the Successor Agency as shown by a certificate or opinion of, or representation by, an officer or officers of the Successor Agency, unless such counsel knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which his or her opinion may be based, as aforesaid, is erroneous.

“Outstanding” means, when used as of any particular time with reference to Bonds, subject to the provisions of the Indenture, all Bonds theretofore issued and authenticated under the Indenture except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and authenticated pursuant to the Indenture.

“Oversight Board” means the oversight board duly constituted from time to time pursuant to Section 34179 of the Dissolution Act.

“Parity Bonds” means any additional tax allocation bonds (including, without limitation, bonds, notes, interim certificates, debentures or other obligations) issued by the Successor Agency as permitted by Section 3.4 of the Indenture.

“Pass-Through Agreements” means the agreements of the Prior Agency entered into prior to the date in the Indenture pursuant to Section 33401 of the Health and Safety Code.

“Paying Agent” means any paying agent appointed by the Successor Agency pursuant to the Indenture.

“Permitted Investments” means:

(a) For all purposes, including defeasance investments in refunding escrow accounts.

(1) Defeasance Securities

(b) For all purposes other than defeasance investments in refunding escrow accounts.

(1) 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
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration -Federal Financing Bank

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations of other Government Sponsored Agencies
- (3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
- (5) Investments in a money market fund, including those of an affiliate of the Trustee rated "AAAm" or "AAAm-G" or better by S&P;
- (6) 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 Moody's or S&P 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 (2) of the definition of Defeasance Securities, 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 in the Indenture 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 redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

- (7) Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P at the time of purchase.
 - (8) The Local Agency Investment Fund of the State or any state administered pooled investment fund in which the Successor Agency is statutorily permitted or required to invest will be deemed a permitted investment; and
 - (9) The Orange County Investment Pool.
- (c) The value of the above investments shall be determined as follows:
- (1) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, and Bank of America Merrill Lynch.
 - (2) As to certificates of deposit and bankers’ acceptances: the face amount in the Indenture, plus accrued interest thereon; and
 - (3) As to any investment not specified above: the value in the Indenture established by prior agreement among the Successor Agency and the Trustee.

“Plan Limitations” means the limitations contained or incorporated in the Redevelopment Plan on (a) the aggregate principal amount of indebtedness payable from Pledged Tax Revenues which may be outstanding at any time, (b) the aggregate amount of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, (c) the period of time for receiving Tax Revenues for any purpose, established pursuant to Section 33333.4 or 33333.6 of the Redevelopment Law.

“Pledged Tax Revenues” means the portion of the monies deposited from time to time in the Redevelopment Property Tax Trust Fund as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act that are equal to that portion of taxes levied upon taxable property in the Project Area and received by the Agency on or after the date of issue of the Bonds, pursuant to Article 6 of Chapter 6 of the Prior Law and Section 16 of Article XVI of the Constitution of the State, including (a) all payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and (b) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to Section 33334.3 of the Prior Law, to the extent permitted to be applied to the payment of principal, interest and premium (if any) with respect to the 2014 Bonds and any Parity Bonds, but excluding all taxes levied upon aircraft as that term is defined in Section 5303 of the Revenue and Taxation Code of the State and amounts of such taxes required to be paid by the Agency pursuant to the Pass-Through Agreements, except to the extent such payments are subordinated to the pledge of Pledged Tax Revenues under the Indenture. In accordance with the Dissolution Act, the Bonds and Parity Bonds shall be payable from and secured by, and Pledged Tax Revenues shall include, moneys deposited, from time to time, in the Redevelopment Property Tax Trust Fund as provided in paragraph (2) of subdivision (a) of Health & Safety Code Section 34183.

If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution; subject to any prior claims against such revenues under such sections.

“Principal Account” means the account by that name referenced in Section 4.3 of the Indenture.

“Prior Agency” means the Orange County Development Agency.

“Prior Law” means the Community Redevelopment Law of the State of California (commencing with Health and Safety Code Section 33000) as it existed on or before June 29, 2011.

“Qualified Reserve Account Credit Instrument” means (a) with respect to the Bonds or any Parity Debt, an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met by the Agency at the time of delivery thereof to the Trustee: (i) the long-term credit rating of such bank or insurance company is “A” or better (without regard to gradations) by S&P and Moody's, and, if rated by A.M. Best & Company, the claims paying ability of such insurance company is rated in one of the three highest rating categories by A.M. Best & Company; (ii) such letter of credit or surety bond has a term of at least twelve (12) months; (iii) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (iv) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account for the purpose of making payments required pursuant to the Indenture and (b) with respect to any Parity Debt, such instrument as is set forth in the related Parity Debt Instrument.

“Rebate Regulations” means the final Treasury Regulations issued under Section 148(f) of the Code.

“Recognized Obligation Payment Schedule” means a Recognized Obligation Payment Schedule, each prepared and approved from time to time pursuant to subdivision (l) of Section 34177 of the Dissolution Act.

“Redevelopment Plan” means the Redevelopment Plan for the Santa Ana Heights Project Area approved and adopted by the Board of Supervisors of the County by Ordinance No. 3595 on July 15, 1986 and includes any amendment thereof, hereafter or heretofore made pursuant to the Law or other applicable law.

“Redevelopment Obligation Retirement Fund” means the fund by that name established pursuant to Health & Safety Code Section 34170.5 (b) and administered by the Successor Agency.

“Redevelopment Project Area,” “Redevelopment Project” or “Project Area” means the means the Project Area described in the Redevelopment Plan.

“Redevelopment Property Tax Trust Fund” or “RPTTF” means the fund by that name established pursuant to Health & Safety Code Sections 34170.5(a) and 34172(c) and administered by the County auditor-controller.

“Refunded Bonds” means the 2003 Bonds.

“Refunding Law” means Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code.

“Regular Record Date” means the fifteenth day of the month preceding any Interest Payment Date whether or not such day is a Business Day.

“Report” means a document in writing signed by an Independent Financial 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.

“Reserve Account” means the account by that name referenced in Section 4.3 in the Indenture.

“Reserve Requirement” means, as of the date of computation, an amount equal to the combined lesser of (i) Maximum Annual Debt Service on the Bonds and any Parity Bonds, (ii) 10% of the net proceeds of the Bonds and any Parity Bonds, or (iii) 125% of the Annual Debt Service on all Bonds and Parity Bonds Outstanding.

“State” means the State of California, United States of America.

“Supplemental Indenture” means any indenture then in full force and effect which has been duly adopted by the Successor Agency under the Dissolution Act, or any act supplementary thereto or amendatory in the Indenture, at a meeting of the Successor Agency duly convened and held, of which a quorum was present and acted thereon, amendatory of or supplemental to the Indenture or any indebtedness entered into in connection with the issuance of Parity Bonds; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means that certain Tax Certificate executed by the Successor Agency with respect to the Bonds.

“Trustee” means U.S. Bank National Association, a national banking association, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

“2003 Bonds” means the Prior Agency’s \$38,465,000 Santa Ana Heights Project Area, Tax Allocation Refunding Bonds, Issue of 2003.

“2003 Bonds Escrow Bank” means U.S. Bank National Association, a national banking association, as escrow bank under the Escrow Agreement.

“2003 Bonds Escrow Fund” means the trust fund established under the 2003 Bonds Escrow Agreement.

“2003 Bonds Escrow Agreement” means the 2003 Bonds Escrow Agreement between the Successor Agency and the 2003 Bonds Escrow Bank.

“2003 Indenture” means the Indenture of Trust dated as of May 1, 2003 providing for the issuance of the 2003 Bonds.

“Santa Ana Heights Project Area” means the Redevelopment Project described in the Redevelopment Plan.

“Written Request of the Successor Agency” or “Written Certificate of the Successor Agency” means a request or certificate, in writing signed by the Public Finance Manager or Chief Financial Officer of the County of Orange, California, acting in his/her capacity as designee of the Successor Agency to the Orange County Development Agency of the Successor Agency or by any other officer of the Successor Agency duly authorized by the Successor Agency for that purpose.

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APPENDIX B

FORM OF BOND COUNSEL OPINION

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

January __, 2014

Successor Agency to the Orange County Development Agency
Santa Ana, California

Re: \$20,960,000 Successor Agency to the Orange County Development Agency (Santa Ana Heights Project Area) Tax Allocation Refunding Bonds, Issue of 2014

Honorable Members of the Successor Agency:

We have examined certified copies of proceedings of the Successor Agency to the Orange County Development Agency (the "Agency"), and other information and documents submitted to us relative to the issuance and sale by the Agency of its Successor Agency to the Orange County Development Agency, (Santa Ana Heights Project Area) Tax Allocation Refunding Bonds, Issue of 2014 in the aggregate principal amount of \$20,960,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we also have relied upon certain representations of fact and certifications made by the Agency, the Trustee, the Underwriter of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Constitution and laws of the State of California (the "State"), including Article 11 of Chapter 3 (Commencing with Section 53580) of Part 1 of Division 2 of Title 5 of the California Government code (the "Bond Law"), the provisions of Health & Safety Code Section 34177.5, a resolution of the Agency adopted on October 22, 2013 (the "Resolution"), and a resolution adopted by the Oversight Board for the Agency adopted on October 24, 2013 (the "Oversight Board Action") and in accordance with the terms and conditions of an Indenture of Trust, dated as of January 1, 2014 (the "Indenture"), by and between the Agency and U.S. Bank National Association (the "Trustee"). All terms not defined herein have the meanings ascribed to those terms in the Indenture.

The Bonds are dated as of their date of delivery, and mature on the dates and bear interest at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the Indenture.

Based upon our examination of all of the foregoing, and in reliance thereon, and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds have been duly and validly authorized by the Agency and are legal, valid and binding special obligations of the Agency, secured and payable solely from Pledged Tax Revenues (as defined in the Indenture) and other sources as and to the extent provided for in the Indenture. The Bonds are enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors' rights to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California. The Bonds are special obligations of the Agency

but are not a debt of the County of Orange, the State of California or any other political subdivisions thereof within the meaning of any constitutional or statutory limitation, and neither the County of Orange, the State of California, or any other of its political subdivisions, except the Agency, is liable for the payment thereof.

2. The Indenture has been duly authorized by the Agency, is valid and binding upon the Agency and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors' rights to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

3. The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that such pledge may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors' rights to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

4. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, we note that, with respect to corporations, such interest on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability.

5. Interest on the Bonds is exempt from State of California personal income tax.

6. The amount by which a Bondholder's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bondholder's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondholder realizing a taxable gain when a Bond is sold by the holder for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the holder.

The opinions set forth in paragraphs 4 and 6 above are subject to the condition that the Agency comply with certain covenants and the applicable requirements of the Internal Revenue Code of 1986, that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will remain excludable from gross income for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Agency has covenanted to comply with all such requirements. We express no opinion regarding other tax consequences with respect to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Bond Purchase Contract dated as of December 17, 2013, between the Agency and E.J. De La Rosa & Co., Inc., and the Tax Certificate may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Such actions or events may adversely affect the value or tax treatment of the Bonds and we express no opinion with respect thereto.

We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and purchasers of the Bonds should not assume that we have reviewed the Official Statement on their behalf.

Respectfully submitted,

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APPENDIX C

BOOK-ENTRY ONLY SYSTEM

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any), and interest payments on the 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 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. Principal, premium (if any), and interest payments with respect to the Bonds 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 will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Successor Agency to the Orange County Development Agency (the “Issuer”) in connection with the issuance of \$20,960,000 aggregate principal amount of the Successor Agency to the Orange County Development Agency Santa Ana Heights Project Area Tax Allocation refunding Bonds, Issue of 2014 (the “Bonds”). The Bonds are being issued pursuant to an Indenture dated as of January 1, 2014 (the “Indenture”) by and between the Issuer and U.S. Bank National Association, as trustee (the “Indenture”). The Issuer covenants and agrees as follows:

Section 1. **Purpose of this Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as hereinafter defined).

Section 2. **Definitions.** The following capitalized terms shall have the following meanings:

“Beneficial Owner” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the Issuer or any successor Dissemination Agent designated in writing by the Issuer, which has filed with the Issuer a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

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

“Official Statement” shall mean the Official Statement for the Bonds dated December 17, 2013.

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

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

Section 3. **Provision of Annual Reports.**

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than the end of the ninth month next following the end of the Issuer's fiscal year (which currently ends on June 30), commencing with the report due for the fiscal year ending June 30, 2013, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the Repository of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Dissemination Agent is not the Issuer). If by fifteen (15) Business Days prior to the date specified in (a) for the Annual Report, the Dissemination Agent (if other than the Issuer) has not received a copy of the Annual Report, the Dissemination Agent shall notify the Issuer of such failure to receive the report. If the Dissemination Agent is other than the Issuer, the Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Issuer fails to provide an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, in the form required by the MSRB.

Section 4. **Content of Annual Report.** The Issuer's Annual Report shall contain or include by reference:

(a) **Financial Statements.** The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended in the form customarily prepared, which may be consolidated with the audited financial statements of the County of Orange, California. If the Issuer prepares audited financial statement and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis

upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

1. The audited financial statements of the Issuer for the prior Fiscal Year in the form customarily prepared by the Issuer, which may be consolidated with the audited financial statements of the County of Orange, California, 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 such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.
2. Numerical and tabular information for the immediately preceding Fiscal Year of the type contained in the Official Statement relating to the Bonds, in the following charts and tables or under the following captions:

(a) Tables 1, 2 and 7.

The Issuer has not undertaken in this Disclosure Certificate to provide all information an investor may want to have in making decisions to hold, sell or buy Bonds but only to provide the specific information listed above.

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 Issuer 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 Issuer shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) (the Bonds are being issued as taxable obligations under the Code);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person. Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(b) The Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds (the Bonds are being issued as taxable obligations under the Code);
2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution, or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Issuer shall determine if such event would be material under applicable federal securities laws.

(d) If the Issuer learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Issuer shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

Section 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity date of the Bonds, the Issuer shall give notice of such termination in a filing with the MSRB.

Section 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Issuer.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3, 4 or 5(a) or (b), 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 the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule

at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

Section 10. **Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 11. **Default.** In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. **Duties, Immunities and Liabilities of Dissemination Agent.** A Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the County agrees to indemnify and save such Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. **Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, if any, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2014

SUCCESSOR AGENCY TO THE ORANGE
COUNTY DEVELOPMENT AGENCY

By: _____
Public Finance Manager of the County of
Orange, California acting in her capacity as
designee of the Successor Agency to the
Orange County Development Agency

APPENDIX E

**COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR
FISCAL YEAR ENDED JUNE 30, 2012 (EXCLUDING SUPPLEMENTARY INFORMATION)**

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ORANGE COUNTY DEVELOPMENT AGENCY
(A Component Unit of the County of Orange, California)

Independent Auditor's Reports,
Management's Discussion and Analysis,
Financial Statements and Supplemental Information

For the period July 1, 2011 through January 31, 2012

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ORANGE COUNTY DEVELOPMENT AGENCY
(A Component Unit of the County of Orange, California)

For the period July 1, 2011 through January 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Supervisors
Orange County Development Agency
Santa Ana, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Development Agency (the Agency), a component unit of the County of Orange, California, as of and for the seven month period ended January 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency, as of January 31, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the OCDA Public Assistance fund for the seven month period then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Assembly Bill 1X 26 was upheld and declared constitutional by the California Supreme Court on December 29, 2011. As part of its decision, the Supreme Court established the date of dissolution for redevelopment agencies to be February 1, 2012. The redevelopment agencies in California, including the Orange County Development Agency (the Agency), were terminated and successor agencies were appointed to wind down the affairs of the former redevelopment agencies in accordance with the provisions of Assembly Bill 1X 26. The County of Orange has elected to be appointed as Successor Agency for purposes of winding down the affairs of the Agency. As a result, the Agency dissolved on February 1, 2012. The fund balances of the former Orange County Development Agency funds were transferred to a private purpose trust fund of the County of Orange on February 1, 2012. Additionally, as of February 1, 2012, certain assets were transferred to the Orange County Housing Authority.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinick, Trine, Day & Co. LLP

Laguna Hills, California
December 18, 2012

ORANGE COUNTY DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The information presented in the "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of the financial activities of the Orange County Development Agency (Agency) for the period July 1, 2011 through January 31, 2012. We encourage readers to consider this information in conjunction with the accompanying financial statements, notes and supplemental information.

FINANCIAL STATEMENT OVERVIEW

This discussion and analysis is intended to serve as an introduction to the Agency's financial statements. The Agency's financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. In addition to the financial statements this report contains additional supplemental information.

Government-wide Financial Statements:

The government-wide financial statements are made up of the following two financial statements: the *Statement of Net Assets* and the *Statement of Activities*. Both of these statements are prepared using accounting methods similar to those used by private-sector companies, the economic resources measurement focus, and the accrual basis of accounting.

The *Statement of Net Assets* provides information regarding all of the Agency's assets and liabilities, with the difference between the two reported as net assets.

The *Statement of Activities* presents information showing the Agency's revenues and expenses for the fiscal year. All revenues and expenses are reported as soon as the underlying event giving rise to them occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and incurred but unpaid interest expense).

The basic services of the Agency are considered to be governmental activities including general government, tax pass-throughs, redevelopment project costs, and interest expenses. All Agency activities are primarily funded by tax increment and its leverage through the issuance of bonds.

The government-wide and governmental funds financial statements can be found on pages 9 through 12 of this report.

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 uses fund accounting to ensure and demonstrate compliance with legal requirements. All of the Agency's services are reported in governmental funds. These funds are reported using modified accrual accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. The governmental funds statements provide a detailed view of the Agency's operations.

The Agency maintains three individual governmental funds organized according to their type: special revenue, debt service and capital projects. Reconciliations are prepared for both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund

balances to facilitate comparisons between governmental funds and governmental activities. This reconciliation identifies the differences between modified accrual accounting and full accrual accounting. The major differences include recognition of certain accrued expenses, capital assets, and long-term liabilities reported in the Statement of Net Assets and Statement of Activities, which are not reported in the fund financial statements.

The governmental funds can be found on pages 9 through 12 of this report.

Notes to financial statements:

The notes provide information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 13.

Supplemental Information:

This section of the report contains the combining schedules by project area and budgetary comparison schedules for the debt service and capital projects funds and excess surplus calculation. This section is presented to provide additional information that is useful to users of these financial statements.

AGENCY-WIDE FINANCIAL ANALYSIS

NET ASSETS		
	Governmental Activities	
	January 31, 2012	June 30, 2011
Current and other assets	\$ 148,243,306	\$ 153,129,545
Capital assets, net	268,912	274,770
Total assets	148,512,218	153,404,315
Long-term liabilities	41,169,511	44,056,212
Other liabilities	5,620,050	16,737,938
Total liabilities	46,789,561	60,794,150
Net assets		
Invested in capital assets	268,912	274,770
Restricted	101,453,745	50,967,447
Unrestricted	-	41,367,948
Total net assets	\$ 101,722,657	\$ 92,610,165

As of January 31, 2012, the Agency's net assets increased by \$9,112,492 compared to the previous fiscal year. The net assets increased due to total revenues exceeding total expenses by \$9,112,492.

Of the Agency's total net assets, \$101,453,745 represents resources that are subject to external restrictions on how they may be used. Such resources are restricted for public assistance, debt service, and specific redevelopment projects.

Governmental Activities

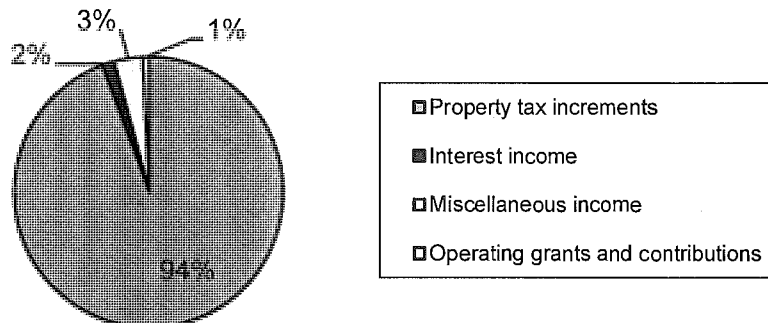
Revenues: The Agency's governmental activities rely on several sources of revenue to finance ongoing operations. Property taxes comprised the largest revenue source for the Agency followed by miscellaneous income, interest income, and then operating grants and contributions. At the end of January 31, 2012, total revenue for the governmental activities was \$19,234,279 a decrease of \$13,836,026 from the prior fiscal year. The decrease from the prior year was primarily due to a decrease in property tax increment revenue. Property tax increment revenue decreased \$12,248,178 over the prior year as a result of the dissolution of OCDA as of February 1, 2012. Total revenues only accounted for the period of July 1, 2011 through January 31, 2012.

Expenses: Total expenses including transfers for governmental activities were \$10,121,787. The Agency's expenses included tax pass-throughs, redevelopment project costs, interest expense, general government costs, and transfer out (reimburse/fund various counties' departments for redevelopment projects). The net decrease of \$18,830,335 from the prior fiscal year was primarily due to the dissolution of OCDA as of February 1, 2012, resulting in less tax pass-throughs payments, interest expense, redevelopment project costs, and general government costs. Total expenses only accounted for the period of July 1, 2011 through January 31, 2012.

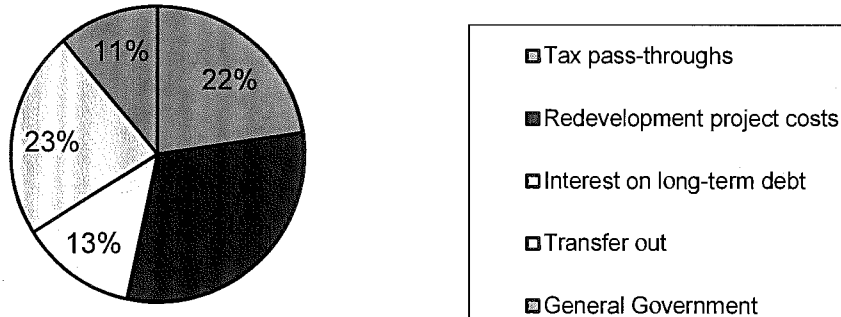
The following table and charts summarize information from the Statement of Activities:

CHANGES IN NET ASSETS		
	Governmental Activities	
	For the Year Ended January 31, 2012	For the Year Ended June 30, 2011
<u>Revenues:</u>		
Program revenues:		
Operating grants and contributions	\$ 150,415	\$ 303,257
General revenues:		
Property tax increments	18,157,639	30,405,817
Interest income	272,724	1,753,058
Miscellaneous	653,501	608,173
Total revenues	19,234,279	33,070,305
<u>Expenses:</u>		
Tax pass-throughs	2,288,485	12,717,450
Interest on long-term debt	1,298,304	2,459,813
Redevelopment project costs	3,110,620	11,704,028
General government	1,123,755	2,070,831
Transfers out	2,300,623	-
Total expenses	10,121,787	28,952,122
Change in net assets	9,112,492	4,118,183
Net assets - July 1, 2011	92,610,165	88,491,982
Net assets - January 31, 2012	\$ 101,722,657	\$ 92,610,165

Revenue by Sources - Governmental Activities



Expenses - Governmental Activities



FUND FINANCIAL ANALYSIS

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Such information is useful in assessing the Agency's financial requirements. The governmental funds reported by the Agency are OCDA Public Assistance, NDAPP/SAH Debt Service, and Redevelopment Construction.

At January 31, 2012, the Agency's governmental funds reported combined fund balances of \$145,429,783, an increase of \$6,536,485 compared to the prior year. Total fund balances for the governmental funds are restricted for the purpose that the fund was established for. For example, special revenue funds have either legal or operational requirements to restrict expenditures for specified purposes and debt service funds are restricted for payment of principal and interest on long-term debt; while capital project funds may have funds restricted for specific redevelopment projects within their project areas.

OCDA Public Assistance fund has a total fund balance of \$49,600,925. This special revenue fund is used to account for the portion of tax increment revenue designated for low to moderate-income housing. As required by the Health and Safety Code, the Agency allocates 20% of the tax increment during the year for low to moderate-income housing projects.

Neighborhood Development and Preservation Project (NDAPP)/Santa Ana Heights (SAH) Debt Service fund has a total fund balance of \$45,865,596, a decrease of \$17,831,389 from the prior year; \$4,096,807 is restricted for use in either acquiring certain assets or servicing long-term debt of the Agency as required by the bond indentures. The remainder of the fund balance is restricted for the payment of debt service and specific redevelopment projects.

The Redevelopment Construction fund has a total fund balance of \$49,963,262, which is restricted for specific redevelopment projects. An increase of \$22,738,683 in fund balance during the current year was primarily due to a transfer in of \$28,216,716 from NDAPP Debt Service fund to satisfy obligation for the Community Stabilization Program which was approved by the Board on November 22, 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's investment in capital assets for its governmental activities as of January 31, 2012, amounted to \$268,912, net of accumulated depreciation. The investment in capital assets includes land, structure, and improvements. The majority of the investment in capital assets is made up of land in the amount of \$210,830.

Additional information about the Agency's capital assets can be found in Note 5 to the financial statements.

Debt Administration

At January 31, 2012, the Agency had total long-term debt outstanding of \$44,100,067. The outstanding debt is comprised of \$26,640,416 (Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights), and \$17,459,651 (Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 – NDAPP), net of premium and deferred loss on refunding.

During the year the Agency made scheduled principal payments of \$2,845,000 on the outstanding bonds. The 2001 NDAPP bonds are rated "A" by Standard & Poor's and "A2" by Moody's Investors Service; the bonds are insured by MBIA Insurance Corporation. The 2003 Santa Ana Heights bonds are "Not Rated" by Standard and Poor's and are "Not Rated" by Moody's Investor Service; the bonds are insured by Ambac Assurance Corporation.

Pursuant to AB 1290, the adopted debt limits for the Agency are as follows:

NDAPP - \$500,000,000 bond debt limit of which \$175,000,000 was transferred to Lake Forest.
SAH - \$205,236,436, which is subject to adjustment by the Consumer Price Index.

Additional information about the Agency's long-term obligations can be found in Note 6 to the financial statements.

OTHER SIGNIFICANT MATTERS

The Agency's management has determined the following matter will impact the Agency's financial position or changes in financial position:

Assembly Bill 1X 26 – Dissolution and Assembly Bill 1X 27 – Community Remittance Payment

On January 10, 2011, Governor Brown proposed a comprehensive budget to close a \$25.4 billion General Fund shortfall. Under the Governor's proposal, local redevelopment agencies would be eliminated and tax increment funds would be diverted by the State to offset trial courts and State health costs. Any remaining funds would be returned to cities, counties, and non-enterprise special districts. Members of the State Legislature subsequently proposed a variety of budget bills between January and June of 2011 related to redevelopment, eventually adopting Assembly Bills 26 and 27 (AB 1X 26 and AB 1X 27), which became law on June 28, 2011.

AB 1X 26 essentially executes Governor Brown's proposal to eliminate redevelopment agencies throughout the state, by dissolving agencies effective October 1, 2011. AB 1X 27 allows for redevelopment agencies to exempt themselves from the dissolution bill if they agree to make a new annual payment to the State each year, as well as an additional payment to school entities, which is triggered by new indebtedness.

In July 2011, the California Redevelopment Association, the League of California Cities, and two cities filed a legal challenge to both AB 1X 26 and AB 1X 27 directly in the California Supreme Court. On August 11th, the Court issued an order indicating that it would exercise jurisdiction over the lawsuit, and set an expedited briefing schedule to allow it to decide the case before the first payment was due on January 15, 2012. The Court also stayed the effectiveness of portions of both bills until ruling could be made.

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in *CRA v. Matosantos* on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

See additional information on the impacts of AB 1X 26 at Note 12.

Request for Information

We hope that the preceding information has provided you with a general overview of the Agency's overall financial status. If you have questions or comments concerning information contained in this report or you want to obtain the Successor Agency's financial statements, please contact the County of Orange, 1770 North Broadway, Santa Ana, CA 92706.

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Net Assets and Governmental Funds Balance Sheet
January 31, 2012

	Governmental Funds				Adjustments (Note 10)	Statement of Net Assets
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total		
<u>Assets</u>						
Pooled cash and investments (Note 3)	\$ 30,795,774	\$ 43,824,193	\$ 47,934,204	\$ 122,554,171	\$ -	\$ 122,554,171
Restricted assets - cash and investments with trustee (Note 3)	-	4,096,807	-	4,096,807	-	4,096,807
Due from other Agency funds	3,330,316	1,531,943	-	4,862,259	(4,862,259)	-
Due from other County funds	6,132	-	89,269	95,401	-	95,401
Interest receivable	28,299	38,386	43,263	109,948	-	109,948
Notes receivable	17,059,969	-	2,668,835	19,728,804	-	19,728,804
Land and improvements held for resale, net (Note 4)	-	-	616,477	616,477	-	616,477
Bond issuance costs	-	-	-	-	1,041,698	1,041,698
Capital assets, nondepreciable (Note 5)	-	-	-	-	210,830	210,830
Capital assets, depreciable, net (Note 5)	-	-	-	-	58,082	58,082
Total assets	<u>\$ 51,220,490</u>	<u>\$ 49,491,329</u>	<u>\$ 51,352,048</u>	<u>\$ 152,063,867</u>	<u>\$ (3,551,649)</u>	<u>\$ 148,512,218</u>

See accompanying notes to the financial statements.

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Net Assets and Governmental Funds Balance Sheet
January 31, 2012

	Governmental Funds				Adjustments (Note 10)	Statement of Net Assets
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total		
<u>Liabilities</u>						
Liabilities						
Current liabilities:						
Accounts payable	\$ 3,108	\$ -	\$ 504,264	\$ 507,372	\$ -	\$ 507,372
Bond interest payable	-	-	-	-	917,669	917,669
Due to other Agency funds	1,531,943	3,330,316	-	4,862,259	(4,862,259)	-
Due to other County funds	84,514	13,914	859,522	957,950	-	957,950
Due to other governmental agencies	-	281,503	-	281,503	-	281,503
Development deposits	-	-	25,000	25,000	-	25,000
Bonds payable, net (Note 6)	-	-	-	-	2,930,556	2,930,556
Total current liabilities	1,619,565	3,625,733	1,388,786	6,634,084	(1,014,034)	5,620,050
Noncurrent liabilities:						
Bonds payable, net (Note 6)	-	-	-	-	41,169,511	41,169,511
Total noncurrent liabilities	-	-	-	-	41,169,511	41,169,511
Total liabilities	1,619,565	3,625,733	1,388,786	6,634,084	40,155,477	46,789,561
<u>Fund Balances/Net Assets</u>						
Fund balances:						
Restricted	49,600,925	45,865,596	49,963,262	145,429,783	(145,429,783)	-
Total fund balances	49,600,925	45,865,596	49,963,262	145,429,783	(145,429,783)	-
Total liabilities and fund balances	\$ 51,220,490	\$ 49,491,329	\$ 51,352,048	\$ 152,063,867	\$ (105,274,306)	
Net assets:						
Invested in capital assets					268,912	268,912
Restricted					101,453,745	101,453,745
Total net assets					\$ 101,722,657	\$ 101,722,657

See accompanying notes to the financial statements.

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Activities and
Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Period July 1, 2011 through January 31, 2012

	Governmental Funds				Adjustments	Statement
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total	(Note 10)	of Activities
Expenditures/expenses:						
Current:						
General Government:						
Administrative costs	\$ 17,816	\$ 50,988	\$ 1,054,951	\$ 1,123,755	\$ -	\$ 1,123,755
Redevelopment project costs:						
Professional services	328,874	93,355	2,682,533	3,104,762	5,858	3,110,620
Intergovernmental:						
Tax pass-throughs (Note 7)	-	2,288,485	-	2,288,485	-	2,288,485
Debt Service:						
Principal	-	2,845,000	-	2,845,000	(2,845,000)	-
Interest on long-term debt	-	1,171,317	-	1,171,317	126,987	1,298,304
Total expenditures/expenses	<u>346,690</u>	<u>6,449,145</u>	<u>3,737,484</u>	<u>10,533,319</u>	<u>(2,712,155)</u>	<u>7,821,164</u>
Program revenues:						
Operating grants and contributions	-	150,415	-	150,415	-	150,415
Net program expense						<u>7,670,749</u>
General revenues:						
Property tax increments	3,330,315	14,963,472	-	18,293,787	(136,148)	18,157,639
Interest income	105,369	88,596	78,759	272,724	-	272,724
Miscellaneous revenue	72,341	99,845	481,315	653,501	-	653,501
Total general revenues	<u>3,508,025</u>	<u>15,151,913</u>	<u>560,074</u>	<u>19,220,012</u>	<u>(136,148)</u>	<u>19,083,864</u>
Other financing sources (uses)/changes in net assets:						
Transfers-internal activities (Note 8)	(1,532,144)	(26,684,572)	25,916,093	(2,300,623)		(2,300,623)
Net change in fund balances	<u>1,629,191</u>	<u>(17,831,389)</u>	<u>22,738,683</u>	<u>6,536,485</u>	<u>(6,536,485)</u>	<u>-</u>
Change in net assets	-	-	-	-	9,112,492	9,112,492
Fund balances/net assets:						
July 1, 2011	47,971,734	63,696,985	27,224,579	138,893,298	(46,283,133)	92,610,165
January 31, 2012	<u>\$ 49,600,925</u>	<u>\$ 45,865,596</u>	<u>\$ 49,963,262</u>	<u>\$ 145,429,783</u>	<u>\$ (43,707,126)</u>	<u>\$ 101,722,657</u>

See accompanying notes to the financial statements.

ORANGE COUNTY DEVELOPMENT AGENCY
Budgetary Comparison Statement - OCDA Public Assistance - Budget and Actual
For the Period July 1, 2011 through January 31, 2012

	OCDA Public Assistance			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Property tax increments	\$ -	\$ -	\$ 3,330,315	\$ 3,330,315
Interest income	300,000	300,000	105,369	(194,631)
Miscellaneous revenue	55,000	55,000	72,341	17,341
Total revenues	<u>355,000</u>	<u>355,000</u>	<u>3,508,025</u>	<u>3,153,025</u>
Expenditures:				
Current:				
Low and moderate-income housing:				
Administrative costs	866,362	3,182,862	17,816	3,165,046
Redevelopment project costs	34,732,425	34,243,661	328,874	33,914,787
Total expenditures	<u>35,598,787</u>	<u>37,426,523</u>	<u>346,690</u>	<u>37,079,833</u>
Excess (deficiency) of revenues over expenditures	<u>(35,243,787)</u>	<u>(37,071,523)</u>	<u>3,161,335</u>	<u>40,232,858</u>
Other financing sources (uses):				
Transfers in	5,311,656	5,311,656	(201)	(5,311,857)
Transfers out	(1,531,944)	(1,531,944)	(1,531,943)	1
Total other financing sources (uses)	<u>3,779,712</u>	<u>3,779,712</u>	<u>(1,532,144)</u>	<u>(5,311,856)</u>
Net change in fund balances	<u>\$ (31,464,075)</u>	<u>\$ (33,291,811)</u>	<u>1,629,191</u>	<u>\$ 34,921,002</u>
Fund balance, July 1, 2011			<u>47,971,734</u>	
Fund balance, January 31, 2012			<u>\$ 49,600,925</u>	

See accompanying notes to the financial statements.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012**

Note 1 – County of Orange Bankruptcy

Background

On December 6, 1994, the County of Orange (County) filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the Orange County Investment Pool (Pool). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1.6 billion. This loss was recorded on the County's books and records in fiscal year 1994-95 with approximately \$600 million allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts. Approximately \$11.3 million of that loss was allocated to the Orange County Development Agency (Agency) and was reported in the year ended June 30, 1995.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

The United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered May 16, 1996, confirmed the Plan. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy.

Impact of County Bankruptcy on the Agency

As described in Note 2, the Agency is a component unit of the County of Orange. Due to statutory and regulatory restrictions, revenues generated by the Agency are not available for County General Fund purposes. However, as a result of the State legislation described above, the Agency shall pay to the County an amount equal to \$4 million per year, for 20 years beginning on July 1, 1996. The Agency's long-term debt obligations are obligations of the Agency payable solely from a pledge of the net revenues of the Agency and a pledge of the funds and accounts established under the trust indenture securing the Agency's long-term debt obligations. The Agency did not file for bankruptcy protection; however, it was and will be significantly impacted by the County's bankruptcy because of investment losses and the reallocation of \$4 million of its revenue each year until the diversion of funds ends in fiscal year 2015-16.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 1 – County of Orange Bankruptcy (continued)

Impact of Legislation on County Bankruptcy

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in *CRA v. Matosantos* on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

Effective February 1, 2012, the Orange County Development Agency (OCDA) was eliminated under the provisions of AB 1X 26. As a result of the elimination of OCDA, property tax revenues began being used to pay required payments on existing bonds, other obligations, and pass-through payments to local governments. However, since the County's Bankruptcy Recovery Plan predates AB 1X 26, no interruption to the existing payment schedules is anticipated. In addition, this obligation will be listed on all applicable Enforceable Obligation Payment Schedules (EOPS) and Recognized Obligation Payment Schedules (ROPS) until the obligation is paid in full. See Note 11.

Note 2 – Summary of Significant Accounting Policies

Reporting Entity

The Agency was established in February 1982 pursuant to the State of California Health and Safety Code, Section 38000 et seq., entitled *Community Redevelopment Law*. As such, the Agency acts as a legal entity, separate and distinct from the County, even though members of the Board of Supervisors of the County also serve as members of the Agency's governing board.

The actions of the Agency are binding, and business, including the incurrence 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 County through acquisition and development of property, public improvements, and revitalization activities in those areas of the County determined to be in a declining condition, which are in a redevelopment project area.

The financial statements of the Agency include the operations of the Orange County Financing Authority (Authority), established on May 19, 1992, pursuant to a Joint Powers Agreement by and between the Agency and the Orange County Housing Authority to assist in the financing of certain Agency projects. The Authority is considered to be a blended component unit of the Agency because the activities of the Authority provide services solely to the Agency and the governing board of the Authority is the same as the Agency's.

The Agency is a blended component unit of the County and, accordingly, its funds are blended in the basic financial statements of the County.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The Agency is currently administering Redevelopment Plans for the following Project Areas:

The Santa Ana Heights Project Area ("SAH") - This project was adopted in July 1986 to promote land use compatibility in the Santa Ana Heights area with the expanded operations at John Wayne Airport. Activities include installing acoustical insulation in the residences, and promoting the conversion of land uses located in the noise impact area from residential to Business Park. The Agency also adopted the Purchase Assurance Program to assist eligible owners to relocate from the Santa Ana Heights area by assuring a buyer for their property.

The Neighborhood Development and Preservation Project Area ("NDAPP") – This project was adopted in June 1988 to help rehabilitate neighborhoods in 14 unincorporated areas of the County and to support affordable housing projects and programs for low and moderate income people.

The Agency utilizes bond proceeds, as well as the 20% tax increment set-aside to rehabilitate housing, to construct infrastructure and public facilities, and to provide affordable housing.

Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

All governmental funds are accounted for on a spending or "financial flow" measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources increments (i.e. bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property tax increments, intergovernmental revenue, and interest income. Generally, only current assets and current liabilities are included on their balance sheets, with the exception of noncurrent portions of long-term receivables, which are reported on their balance sheets, offset by fund balance reserve accounts. Statements of revenues, expenditures, and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Agency. These statements include the financial activities of the overall government.

The statement of activities presents a comparison between direct expenses and program revenues for activities of the Agency. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Revenues that are not classified as program revenues, including all taxes are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Agency reports the following major governmental funds:

OCDA Public Assistance Special Revenue Fund is used to account for the 20% portion of tax increment revenues that are restricted to expenditure for specified purposes (low and moderate-income housing projects) other than debt service and capital projects.

NDAPP/SAH Debt Service Fund is used to account for tax increment revenues, interest income on invested funds, and bond proceeds that are restricted or committed to expenditure for principal and interest.

Redevelopment Construction Capital Project Fund is used to account for bond proceeds available for project improvements and interest income on invested funds that are committed to expenditure for capital outlays.

Notes Receivable

Notes receivable are loans made for the development of low-income affordable housing projects or for property improvements in redevelopment project areas. These receivables are collateralized by deeds of trust. These loans are recorded as restricted fund balance for the net balance of notes receivable at January 31, 2012.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

Land and Improvements Held for Resale

Land and improvements acquired by the Agency and held for resale are recorded as an asset at the time of purchase. The property is carried at the lower of acquisition cost or estimated net realizable value.

Capital Assets

Capital assets are recorded at cost and reported in the governmental activities column in the government-wide statement of net assets. Capital assets include land and structures and improvements that are held by the Agency for future development. The capitalization thresholds are as follows:

Land	\$0
Structures and Improvements	\$150,000

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of structures and improvements are as follows:

Structures and Improvements	10 to 50 years
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Bond Issuance Costs, Original Issue Discounts and Premiums, and Deferred Gains or Losses on Refundings

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs, premiums and discounts, and gains or losses occurring from refundings are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and are amortized into the appropriate functional expense category. Bonds payable are reported net of the applicable bond premiums, discounts and deferred amounts on refunding and are amortized as a component of interest expense.

In the fund financial statements, governmental funds recognize bond issuance costs and premiums and discounts during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures and all other amounts are reported as other financing sources or uses.

Tax Increment Revenue

The Redevelopment Law provides the means for financing redevelopment projects based upon an allocation of taxes collected within project areas. The taxable valuation of project areas prior to adoption of the redevelopment plans, or base roll, is established and, except for any period during which the taxable valuation drops below the base roll level, the taxing agencies thereafter receive only the taxes produced by the levy of the then current tax rate upon the base roll. Tax revenues collected upon any increase in taxable valuation over the base roll ("tax increment") are allocated to the Agency and may be pledged by the Agency for the repayment of any indebtedness incurred in financing or refinancing redevelopment projects. The Agency has no authority to levy property taxes and must look specifically to the allocation of taxes produced as described.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1 st day of the month following the new construction or ownership change.	75.41
Property tax lien date is January 1.	2192
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4 th Monday in September).	2601
Secured tax payment due dates are:	
1 st Installment – November 1, and	2605
2 nd Installment – February 1.	2606
Secured tax delinquent dates (last day to pay without a penalty) are:	
1 st Installment – December 10, and	2617
2 nd Installment – April 10.	2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

Budget Adoption and Revision

Fiscal year budgets are prepared in accordance with the statutory requirements of the State of California Health and Safety Code. Preliminary budgets are prepared by the Agency and submitted to the Agency Board for approval. The final budget is adopted during a public hearing process before the Board of Supervisors sitting as the Redevelopment Agency. The final budget is compiled and entered into the accounting records. The annual budget may be amended as determined by the Agency at a public hearing. Adjustments are then entered into the accounting records. The legal level of budgetary control is maintained at the fund level.

Policy Regarding Use of Restricted vs. Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first and then unrestricted resources, as they are needed.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

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 could differ from those estimates.

Fund Balance

The Agency has implemented GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"* (GASB 54) for financial statement purposes. The intent of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The balance sheet reports the following classification of fund balance:

Restricted Fund Balance

Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Note 3 – Cash and Investments

The Agency's investment policy guidelines provide for pooling its cash and investments with the County Treasurer and allow for the same types of investments as the County.

Pooled Cash and Investments

The County Treasurer maintains the County Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At January 31, 2012, the Pool contains deposits and investments in U.S. government agencies, negotiable certificates of deposits, bankers' acceptances, commercial paper, medium-term notes, repurchase agreements, and money market mutual funds with an average maturity of approximately 302 days. Pooled investments are stated at fair value. The County Treasurer contracts with an outside service to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset value is calculated for the County Pool each business day. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the County Treasurer.

ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)

Note 3 – Cash and Investments (continued)

Cash and Investments with Trustee

Cash and investments with trustee represent amounts held by a trustee bank, which are restricted for use in either acquiring certain assets or servicing long-term debt of the Agency as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the types of authorized investments. All investments with trustee are recorded at fair value.

At January 31, 2012, cash and investments of the Agency are summarized as follows:

Cash and investments pooled by the County Treasurer	\$ 122,554,171
Investments held by trustee:	
Money market mutual funds	4,096,807
Total	<u>\$ 126,650,978</u>

Investment Disclosures

As of January 31, 2012, the major classes of Agency's investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	<u>\$ 122,554,171</u>	\$ -			0.827
Restricted Investment with Trustee:					
Money Market Mutual Funds	<u>4,096,807</u>	<u>4,096,807</u>	Variable	On Demand	-
Total Restricted Investment with Trustee	<u>\$ 4,096,807</u>	<u>\$ 4,096,807</u>			
Portfolio Weighted Average Maturity:					0.8

Interest Rate Risk

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The Agency manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the Investment Policy Statement (IPS). At January 31, 2012, the WAM for the Pool approximated 302 days (0.827 years).

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 3 – Cash and Investments (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the Agency's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (Standard & Poor's), P-1 (Moody's), or F-1 (Fitch). For an issuer of long-term debt, the rating must be no less than an "A".

Note 4 – Land and Improvements Held for Resale

Land and improvements held for resale is recorded at the lower of acquisition cost or estimated net realizable value. At January 31, 2012, the cost of land and improvements is \$1,171,694 with an estimated net realizable value of \$616,477, therefore; this asset is recorded at \$616,477. There was no OCDA land parcels sold during the year.

Note 5 – Changes in Capital Assets

The changes in capital assets include assets of the Agency other than those accounted for in Land and Improvements Held for Resale. Increases and decreases in the Agency's capital assets during the fiscal year were as follows:

	Balance July 1, 2011	Increases	Decreases	Balance January 31, 2012
Capital assets, nondepreciable:				
Land	\$ 210,830	\$ -	\$ -	\$ 210,830
Total capital assets, nondepreciable	210,830	-	-	210,830
Capital assets, depreciable:				
Structures and improvements	183,984	-	-	183,984
Total capital assets, depreciable	183,984	-	-	183,984
Less accumulated depreciation:				
Structures and improvements	(120,044)	(5,858)	-	(125,902)
Total capital assets depreciated, net	63,940	(5,858)	-	58,082
Total capital assets, net	\$ 274,770	\$ (5,858)	\$ -	\$ 268,912

Depreciation expense of \$5,858 for the period July 1, 2011 through January 31, 2012 was charged to the Redevelopment Projects function.

OCDA was dissolved on February 1, 2012. OCDA's capital assets were transferred to the Orange County Housing Authority in accordance with Health and Safety Code Section 34176.

ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)

Note 6 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the period July 1, 2011 through January 31, 2012:

	Balance July 1, 2011	Issuances, Premiums, Deferred Amounts on Refundings, and Accretions	Retirements	Balance January 31, 2012	Due Within One Year
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003-SAH	\$ 28,200,000	\$ -	\$ (1,625,000)	\$ 26,575,000	\$ 1,700,000
Bond premium on Tax Allocation Refunding Bonds, Series 2003-SAH	1,231,603	(74,241)	-	1,157,362	41,873
Deferred amount on refunding (1993 Orange County Development Agency Revenue Bonds)	(1,145,398)	53,452	-	(1,091,946)	(91,632)
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001-NDAPP	19,130,000	-	(1,220,000)	17,910,000	1,285,000
Bond premium on Tax Allocation Refunding Bonds, Series 2001- NDAPP	248,766	(72,618)	-	176,148	50,191
Deferred amount on refunding (1992 Orange County Development Agency Revenue Bonds)	(658,508)	32,011	-	(626,497)	(54,876)
Total long-term liabilities:	<u>\$ 47,006,463</u>	<u>\$ (61,396)</u>	<u>\$ (2,845,000)</u>	<u>\$ 44,100,067</u>	<u>\$ 2,930,556</u>

OCDA was dissolved on February 1, 2012. The balances outstanding were transferred to a private purpose trust fund and are reflected on the June 30, 2012 OCDA Successor Agency Financial Statements and County of Orange's CAFR.

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights

The Agency issued these bonds on November 13, 2003, in the original principal amount of \$38,465,000 at a premium of \$1,660,485. The proceeds of the bonds and other available monies were used to refund and defease the outstanding 1993 Tax Allocation Revenue Bonds, fund a reserve account for the new bonds, and pay the cost of issuing the bonds. The SAH Refunding Bonds, payable through September 2023, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Santa Ana Heights Project Area. The bonds are due in annual principal installments ranging from \$1,340,000 to \$2,855,000 beginning September 1, 2004 through 2023, at interest rates ranging from 2.00% to 5.250%. The principal amount outstanding at January 31, 2012 is \$26,575,000. For the period July 1, 2011 through January 31, 2012, principal and interest paid and total tax increment revenues were \$2,309,114 and \$6,072,319, respectively.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 6 – Long-Term Liabilities (continued)

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 – NDAPP

The Agency issued these bonds on July 11, 2001, in the original principal amount of \$26,160,000 at a premium of \$326,700. A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140,000 of the \$27,072,000 outstanding NDAPP Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. The bonds are due in annual principal installments ranging from \$280,000 to \$2,005,000 beginning September 1, 2002 through 2022, at interest rates ranging from 4.00% to 5.50%. The principal amount outstanding at January 31, 2012 is \$17,910,000. For the period July 1, 2011 through January 31, 2012, principal and interest paid and total tax increment revenues were \$1,707,203 and \$8,891,153, respectively.

The annual requirements to amortize outstanding bonds included in the Statement of Net Assets as of January 31, 2012, including interest, are as follows:

Period/Years Ending June 30	2003 Tax Allocation Bonds		2001 Tax Allocation Bonds Series A	
	Principal	Interest	Principal	Interest
2/1/12-6/30/12	\$ -	\$ 647,551	\$ -	\$ 453,653
2013	1,700,000	1,265,353	1,285,000	879,197
2014	1,760,000	1,202,603	1,340,000	814,238
2015	1,825,000	1,123,978	1,415,000	740,244
2016	1,915,000	1,028,084	1,485,000	664,119
2017-2021	11,190,000	3,480,763	8,685,000	2,056,069
2022-2024	8,185,000	601,543	3,700,000	177,250
Total	\$ 26,575,000	\$ 9,349,875	\$ 17,910,000	\$ 5,784,770

Pursuant to AB 1290, the adopted debt limits for the Agency are as follows:

NDAPP - \$500,000,000 bond debt limit of which \$175,000,000 was transferred to Lake Forest.

SAH - \$205,236,436, which is subject to adjustment by the Consumer Price Index.

Note 7 – Pass-Through Agreements

The Agency has entered into agreements with various governmental entities to "pass-through" applicable portions of property tax revenues received by the Santa Ana Heights and NDAPP project areas attributable to these entities to the extent that their territorial limits reside within the Agency's project areas. At January 31, 2012, tax pass-throughs also include the \$2,000,000 revenue reallocation related to the County's bankruptcy (Note 1).

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 8 – Transfers In/Out

The amount transferred to the Redevelopment Construction Fund from the NDAPP/SAH Debt Service Fund for project improvements and rehabilitation for the redevelopment projects was \$28,216,716. In addition, the OCDA Public Assistance Fund transferred to the NDAPP/SAH Debt Service Fund \$1,531,943 to meet the debt service requirements of these projects.

Note 9 – Related Party Transactions

The Agency reimbursed a total of \$5,123,730 to various County departments who administer various functions/areas of the Agency and they are as follows:

OC Community Services, a department of the County of Orange, is responsible for affordable housing projects and activities within the NDAPP Project Area including housing rehabilitation, public works improvements, and is also responsible for overall Agency administration and policy. OC Public Works is responsible for some activities within the SAH Project Area including various public works type projects.

County Counsel provides legal support on a variety of issues. OC Public Works acts as project manager on most public works type projects, and its Corporate Real Estate Unit provides projects support on real estate issues.

Note 10 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

Adjustments between the Governmental Funds Balance Sheet and the Statement of Net Assets

Interfund Receivables and Payables

Interfund receivables and payables at January 31, 2012, are as follows:

	Due from other Funds	Due to other Funds
OCDA Public Assistance Fund	\$ 3,330,316	\$ 1,531,943
NDAPP/SAH Debt Service Fund	1,531,943	3,330,316
	<u>\$ 4,862,259</u>	<u>\$ 4,862,259</u>

Both interfund payable balances relate to the FY 2012 20% Low/Mod Set Aside transfer required to each fund. These interfund balances are excluded in the government-wide statements.

Bond Issuance Costs

Bond issuance costs of \$1,041,698 are not included in the fund financial statements but are included in the statement of net assets because Government-wide statements focus on economic resources and require these assets to be included.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 10 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements (continued)

Capital Assets

Capital assets used in the operations of governmental activities are not financial resources and therefore are not reported in the funds balance sheet. Such assets must be included in the statement of net assets for purpose of government-wide reporting. These assets consist of:

Land	\$ 210,830
Structures and improvements	183,984
Accumulated depreciation	<u>(125,902)</u>
Total capital assets, net	<u>\$ 268,912</u>

Liabilities

Governmental funds report only those liabilities that expect to be liquidated with current available financial sources. Thus, governmental funds typically do not report any liability for the unmatured portion of long-term debt and interest payable on long-term debt. However, all debt must be reported in the government-wide financial statements. Long-term liabilities include:

Bonds payable, net - current	\$ 2,930,556
Bonds payable, net - noncurrent	41,169,511
Accrued interest payable on bonds	917,669

Adjustments between the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds and the Statement of Activities

Long-Term Liabilities

Long-term debt transactions, including the repayment of bond principal, are reported as expenditures in governmental funds. In the statement of net assets, such transactions reduce or increase the Agency's long-term liabilities, therefore, increasing or reducing fund balance as follows:

Bond principal payments	\$ 2,845,000
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Expenses

Governmental funds report capital outlays as expenditures. In the statement of activities the cost of assets used in the operations of the Agency is allocated over their estimated useful lives and is reported as depreciation expense. Depreciation for the period July 1, 2011 through January 31, 2012 totaled \$5,858.

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the fund. They are as follows:

Accrued interest expense, amortization of bond issuance cost, premiums and deferred amounts on refunding	\$ 126,987
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**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 11 – Going Concern

Property Tax Revenue

Property tax revenue related to prior years that is available in the current year is reported as revenue in the governmental funds. In contrast, revenue that is earned but unavailable in the current year is deferred in the governmental funds. Therefore, the changes in the deferred revenue accounts are analyzed to determine the revenue on a full accrual basis of accounting. The decrease in revenue of \$(136,148) in the statement of activities reflects the change in the deferred revenue accounts related to collected, delinquent property taxes.

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in *CRA v. Matosantos* on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the County elected to become the Successor Agency to the Redevelopment Agency in accordance with the Bill. As of February 1, 2012, net assets of \$32,083,814 were transferred to the Orange County Housing Authority in accordance with Health and Safety Code Section 34176.

On January 24, 2012, the Orange County Development Agency (OCDA) adopted its last Enforceable Obligation Payment Schedule (EOPS) for the purposes of memorializing those financial obligations that remained through June 30, 2012. This action also authorized the use of former redevelopment funds to pay those obligations as listed on the EOPS, pending the establishment of an Oversight Board as required by AB 1X 26. OCDA ceased to exist as of February 1, 2012. However, no adjustments were made as of January 31, 2012. See Note 12.

Note 12 – Subsequent Events

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the County of Orange that previously had reported a redevelopment agency within the reporting entity of the County as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the County elected to become the Successor Agency to the Redevelopment Agency in accordance with the Bill. Also on January 24, 2012, the County elected the Orange County Housing Authority as the "Housing Successor" to retain the housing assets and functions previously performed by the redevelopment agency in accordance with Health and Safety Code section 34176.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

Note 12 – Subsequent Events (continued)

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the County are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The County's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the County.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the OCDA and the County of Orange. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the County of Orange.

Effective February 1, 2012, the Orange County Development Agency (OCDA) was dissolved under the provisions of AB 1X 26. As a result of the dissolution of OCDA, a fiduciary fund (private-purpose trust fund) was created accordingly to accept the role serving as a successor agency with respect to the assets and liabilities of the former OCDA.

The transfer of the assets and liabilities of the former OCDA as of February 1, 2012 from governmental funds of OCDA to the County's Housing Authority fund (in accordance with Health and Safety Code Section 34176) and fiduciary funds was reported in the County of Orange's Comprehensive Annual Financial Report as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of February 1, 2012 was reported in the private-purpose trust fund as an extraordinary gain.

ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)

Note 12 – Subsequent Events (continued)

The following is a summary of the transfer of the assets and liabilities of the former OCDA as of February 1, 2012:

	Redevelopment Agency 7 Months Ended 1/31/2012	Transferred to Housing Authority Special Revenue Fund 2/1/2012	Transferred to Successor Agency Private Purpose Trust Fund 2/1/2012
Assets			
Cash	\$ 122,554,171	\$ (12,117,888)	\$ (110,436,283)
Cash Investments With Trustee	4,096,807	-	(4,096,807)
Interest Receivable	109,948	(59,060)	(50,888)
Notes Receivable	19,728,804	(19,640,108)	(88,696)
Land Held For Resale	616,477	-	(616,477)
Due From Other County Funds	95,401	-	(95,401)
Bond Issuance Costs	1,041,698	-	(1,041,698)
Capital Assets	268,912	(268,912)	-
Total Assets	\$ 148,512,218	\$ (32,085,968)	\$ (116,426,250)
Liabilities			
Accounts Payable	\$ 507,372	\$ -	\$ (507,372)
Due To Other County Funds	957,950	(2,154)	(955,796)
Due To Other Governmental Agencies	281,503	-	(281,503)
Development Deposits	25,000	-	(25,000)
Bond Interest Payable	917,669	-	(917,669)
Bond Payable	44,100,067	-	(44,100,067)
Total Liabilities	\$ 46,789,561	\$ (2,154)	\$ (46,787,407)
Net Assets	\$ 101,722,657	\$ (32,083,814)	\$ (69,638,843)

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Balance Sheet by Project Area
January 31, 2012

	Santa Ana Heights	NDAPP	Total
<u>Assets</u>			
Pooled cash and investments	\$ 10,411,248	\$ 33,412,945	\$ 43,824,193
Restricted assets - cash and investments with trustee	3,643,154	453,653	4,096,807
Due from other Agency funds	241,264	1,290,679	1,531,943
Interest receivable	9,414	28,972	38,386
Total assets	<u>\$ 14,305,080</u>	<u>\$ 35,186,249</u>	<u>\$ 49,491,329</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other Agency funds	\$ 1,537,529	\$ 1,792,787	\$ 3,330,316
Due to other County funds	6,409	7,505	13,914
Due to other governmental agencies	143,174	138,329	281,503
Total liabilities	<u>1,687,112</u>	<u>1,938,621</u>	<u>3,625,733</u>
Fund balances:			
Restricted	12,617,968	33,247,628	45,865,596
Total fund balances	<u>12,617,968</u>	<u>33,247,628</u>	<u>45,865,596</u>
Total liabilities and fund balances	<u>\$ 14,305,080</u>	<u>\$ 35,186,249</u>	<u>\$ 49,491,329</u>

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Period July 1, 2011 through January 31, 2012

	Santa Ana Heights	NDAPP	Total
Revenues:			
Property tax increments	\$ 6,072,319	\$ 8,891,153	\$ 14,963,472
Interest income	14,697	73,899	88,596
Operating grants and contributions	14,559	135,856	150,415
Miscellaneous revenue	64,451	35,394	99,845
Total revenues	6,166,026	9,136,302	15,302,328
Expenditures:			
Current:			
General government:			
Administrative costs	3,054	47,934	50,988
Redevelopment project costs:			
Professional services	49,371	43,984	93,355
Intergovernmental:			
Tax pass-throughs	2,139,896	148,589	2,288,485
Debt service:			
Principal	1,625,000	1,220,000	2,845,000
Interest	684,114	487,203	1,171,317
Total expenditures	4,501,435	1,947,710	6,449,145
Excess (deficiency) of revenues over (under) expenditures	1,664,591	7,188,592	8,853,183
Other financing sources (uses):			
Transfers in	241,264	1,290,679	1,531,943
Transfers out	103	(28,216,618)	(28,216,515)
Total other financing (uses)	241,367	(26,925,939)	(26,684,572)
Net change in fund balances	1,905,958	(19,737,347)	(17,831,389)
Fund balances, July 1, 2011	10,712,010	52,984,975	63,696,985
Fund balances, January 31, 2012	\$ 12,617,968	\$ 33,247,628	\$ 45,865,596

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Capital Project Fund
Combining Balance Sheet by Project Area
January 31, 2012

<u>Assets</u>	Santa Ana Heights	NDAPP	Total
Pooled cash and investments	\$ 19,935,452	\$ 27,998,752	\$ 47,934,204
Due from other County funds	87,771	1,498	89,269
Notes receivable	-	2,668,835	2,668,835
Interest receivable	19,586	23,677	43,263
Land and improvements held for resale, net	616,477	-	616,477
Total assets	<u>\$ 20,659,286</u>	<u>\$ 30,692,762</u>	<u>\$ 51,352,048</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 121,505	\$ 382,759	\$ 504,264
Due to other County funds	209,184	650,338	859,522
Development deposits	25,000	-	25,000
Total liabilities	<u>355,689</u>	<u>1,033,097</u>	<u>1,388,786</u>
Fund balances:			
Restricted	<u>20,303,597</u>	<u>29,659,665</u>	<u>49,963,262</u>
Total fund balances	<u>20,303,597</u>	<u>29,659,665</u>	<u>49,963,262</u>
Total liabilities and fund balances	<u>\$ 20,659,286</u>	<u>\$ 30,692,762</u>	<u>\$ 51,352,048</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Capital Project Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Period July 1, 2011 through January 31, 2012

	Santa Ana Heights	NDAPP	Total
Revenues:			
Interest income	\$ 53,280	\$ 25,479	\$ 78,759
Miscellaneous revenue	398,980	82,335	481,315
Total revenues	<u>452,260</u>	<u>107,814</u>	<u>560,074</u>
Expenditures:			
Current:			
General government:			
Administrative costs	580,295	474,656	1,054,951
Redevelopment project costs:			
Professional services	22,006	5,104	27,110
Project improvement costs	696,809	1,958,614	2,655,423
Total expenditures	<u>1,299,110</u>	<u>2,438,374</u>	<u>3,737,484</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(846,850)</u>	<u>(2,330,560)</u>	<u>(3,177,410)</u>
Other financing sources (uses):			
Transfers in	-	28,216,716	28,216,716
Transfers out	-	(2,300,623)	(2,300,623)
Total other financing sources (uses)	<u>-</u>	<u>25,916,093</u>	<u>25,916,093</u>
Net change in fund balances	(846,850)	23,585,533	22,738,683
Fund balances, July 1, 2011	<u>21,150,447</u>	<u>6,074,132</u>	<u>27,224,579</u>
Fund balances, January 31, 2012	<u>\$ 20,303,597</u>	<u>\$ 29,659,665</u>	<u>\$ 49,963,262</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Budgetary Comparison Schedules
Capital Projects and Debt Service Funds - Budget and Actual
For the Period July 1, 2011 through January 31, 2012

	Redevelopment Construction Capital Project				NDAPP/SAH Debt Service			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:								
Property tax increments	\$ -	\$ -	\$ -	\$ -	\$ 30,241,670	\$ 30,241,670	\$ 14,963,472	\$ (15,278,198)
Interest income	119,300	119,300	78,759	(40,541)	410,000	410,000	88,596	(321,404)
Intergovernmental revenue	-	-	-	-	306,000	306,000	150,415	(155,585)
Miscellaneous revenue	388,895	388,895	481,315	92,420	69,000	69,000	99,845	30,845
Total revenues	<u>508,195</u>	<u>508,195</u>	<u>560,074</u>	<u>51,879</u>	<u>31,026,670</u>	<u>31,026,670</u>	<u>15,302,328</u>	<u>(15,724,342)</u>
Expenditures:								
Current:								
General Government	8,128,050	34,676,104	1,054,951	33,621,153	17,195,054	18,880,852	50,988	18,829,864
Redevelopment project costs	12,828,111	16,653,056	2,682,533	13,970,523	-	-	93,355	(93,355)
Intergovernmental:								
Pass-throughs	-	-	-	-	11,186,152	11,186,152	2,288,485	8,897,667
Debt service:								
Principal	-	-	-	-	2,845,000	2,845,000	2,845,000	-
Interest	-	-	-	-	2,272,524	2,272,524	1,171,317	1,101,207
Total expenditures	<u>20,956,161</u>	<u>51,329,160</u>	<u>3,737,484</u>	<u>47,591,676</u>	<u>33,498,730</u>	<u>35,184,528</u>	<u>6,449,145</u>	<u>28,735,383</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,447,966)</u>	<u>(50,820,965)</u>	<u>(3,177,410)</u>	<u>47,643,555</u>	<u>(2,472,060)</u>	<u>(4,157,858)</u>	<u>8,853,183</u>	<u>13,011,041</u>
Other financing sources (uses):								
Transfers in	2,000,000	30,216,716	28,216,716	(2,000,000)	1,531,944	1,531,944	1,531,943	(1)
Transfers out	-	-	(2,300,623)	(2,300,623)	(15,112,492)	(35,528,372)	(28,216,515)	7,311,857
Total other financing sources (uses)	<u>2,000,000</u>	<u>30,216,716</u>	<u>25,916,093</u>	<u>(4,300,623)</u>	<u>(13,580,548)</u>	<u>(33,996,428)</u>	<u>(26,684,572)</u>	<u>7,311,856</u>
Net change in fund balances	<u>\$ (18,447,966)</u>	<u>\$ (20,604,249)</u>	<u>22,738,683</u>	<u>\$ 43,342,932</u>	<u>\$ (16,052,608)</u>	<u>\$ (38,154,286)</u>	<u>(17,831,389)</u>	<u>\$ 20,322,897</u>
Fund balances, July 1, 2011			<u>27,224,579</u>				<u>63,696,985</u>	
Fund balances, January 31, 2012			<u>\$ 49,963,262</u>				<u>\$ 45,865,596</u>	



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Board of Supervisors
Orange County Development Agency
Santa Ana, California

We have audited the financial statements of the governmental activities and each major fund of the Orange County Development Agency (the Agency), a component unit of the County of Orange, as of and for the seven month period ended January 31, 2012, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 18, 2012. Our report includes an emphasis of matter paragraph noting that Assembly Bill 1X 26 was upheld and declared constitutional by the California Supreme Court on December 29, 2011. As part of its decision, the Supreme Court established the date of dissolution for redevelopment agencies was established to be February 1, 2012. The redevelopment agencies in California, including the Orange County Development Agency (the Agency), were terminated and successor agencies were appointed to wind down the affairs of the former redevelopment agencies in accordance with the provisions of Assembly Bill 1X 26. The County of Orange has elected to be appointed as Successor Agency for purposes of winding down the affairs of the Agency. As a result, the Agency dissolved on February 1, 2012. The fund balances of the former Orange County Development Agency funds were transferred to a private purpose trust fund of the County of Orange on February 1, 2012. Additionally, as of February 1, 2012, certain assets were transferred to the Orange County Housing Authority. Our report also included an explanatory paragraph stating that the financial statements present only the Orange County Development Agency and do not purport to, and do not, present fairly the financial position of the County of Orange, California, as of June 30, 2012, and the changes in its financial position, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Supervisors, the Audit Oversight Committee, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Varrinick, Trine, Day & Co. LLP

Laguna Hills, California
December 18, 2012

**COUNTY OF ORANGE REDEVELOPMENT
SUCCESSOR AGENCY
(A Private-Purpose Trust Fund of the County of Orange,
California)**

Independent Auditor's Reports,
Financial Statements and Supplemental Information

For the period of February 1, 2012 through June 30, 2012

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**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A Private-Purpose Trust Fund of the County of Orange, California)**

For the period of February 1, 2012 through June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Oversight Board
County of Orange Redevelopment Successor Agency
Santa Ana, California

We have audited the accompanying financial statements of the County of Orange Redevelopment Successor Agency (Successor Agency), a private purpose trust fund of the County of Orange, California, as of June 30, 2012, and for the period of inception (February 1, 2012) to June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Successor Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Successor Agency and do not purport to, and do not, present fairly the financial position of County of Orange, California, as of June 30, 2012, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Successor Agency, as of June 30, 2012, and the respective change in financial position, thereof for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Assembly Bill 1X 26 was upheld and declared constitutional by the California Supreme Court on December 29, 2011. As part of its decision, the Supreme Court established the date of dissolution for redevelopment agencies to be February 1, 2012. The redevelopment agencies in California, including the Orange County Development Agency (the Agency), were terminated and successor agencies were appointed to wind down the affairs of the former redevelopment agencies in accordance with the provisions of Assembly Bill 1X 26. The County of Orange has elected to be appointed as Successor Agency for purposes of winding down the affairs of the Agency. As a result, the Agency dissolved on February 1, 2012. The fund balances of the former Orange County Development Agency funds were transferred to a private purpose trust fund of the County of Orange on February 1, 2012. Additionally, as of February 1, 2012, certain assets were transferred to the Orange County Housing Authority.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of the Successor Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on financial statements that collectively comprise the Successor Agency's basic financial statements. The supplementary information on page 18 and 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinik, Trine, Day & Co. LLP

Laguna Hills, California
December 18, 2012

COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Statement of Fiduciary Net Assets
June 30, 2012

	<u>Total</u>
<u>Assets</u>	
Pooled cash and investments (Note 3)	\$ 110,381,577
Restricted assets - cash and investments with trustee (Note 3)	2,995,603
Due from other Governmental Agencies	210,703
Interest receivable	212,237
Land and improvements held for resale (Note 4)	616,477
Bond issuance costs	1,004,848
Total assets	<u>115,421,445</u>
<u>Liabilities</u>	
Current liabilities:	
Bond interest payable	734,136
Due to other governmental agencies (Note 8)	22,893,251
Bonds payable, net	2,816,490
Noncurrent liabilities:	
Bonds payable, net	41,239,722
Total liabilities	<u>67,683,599</u>
<u>Net Assets</u>	
Held in trust for other governments	<u>\$ 47,737,846</u>

COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Statement of Changes in Fiduciary Net Assets
For the Period February 1, 2012 through June 30, 2012

	<u>Total</u>
Additions:	
Property tax increment	\$ 4,086,206
Investment earnings	214,804
Other	<u>25,000</u>
Total additions	<u>4,326,010</u>
Deductions:	
Administrative expenses	78,001
Program expenses of former redevelopment agency	355,371
Tax pass-throughs (Note 6)	24,882,969
Interest on long-term debt	<u>910,666</u>
Total deductions	<u>26,227,007</u>
Extraordinary gain (Note 9)	69,638,843
Change in net assets	47,737,846
Net Assets - February 1, 2012	-
Net Assets - June 30, 2012	<u><u>\$ 47,737,846</u></u>

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 1 –Summary of Significant Accounting Policies

Reporting Entity

On December 29, 2011, the California Supreme Court upheld the constitutionality of AB 1X26 (The “Dissolution Act”) eliminating the redevelopment agencies in the State of California effective February 1, 2012. This action impacted the presentation of the Financial Statements of the County of Orange (County) that previously had reported the Orange County Development Agency (OCDA) within the reporting entity of the County as a component unit. A Private-Purpose Trust Fund was established accordingly to account for the assets and liabilities of the former OCDA. The Private-Purpose Trust Fund is administrated by the County acting as Successor Agency (Agency).

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the County or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the County elected to become the Successor Agency to the Redevelopment Agency in accordance with the Dissolution Act. An Oversight Board was appointed to oversee the dissolution process.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Dissolution Act directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the County are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The County’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the County.

The accompanying financial statements are not intended to present fairly the financial position or changes in financial position of the County in conformity with the accounting principles generally accepted in the U.S.

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 1 –Summary of Significant Accounting Policies (continued)

Under GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Successor Agency has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

Measurement Focus

Fiduciary fund financial statements are used to account for assets held in a trustee or agency capacity and cannot be used to support the County's own programs. Trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with operation of these funds are included on the statement of fiduciary net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Fiduciary Fund Financial Statements

The fiduciary fund financial statements provide information about the Agency's funds.

Land and Improvements Held for Resale

Land and improvements transferred to the Successor Agency from the former OCDA and held for resale are recorded as an asset at the time of purchase. The property is carried at the lower of acquisition cost or estimated net realizable value.

Bond Issuance Costs, Deferred Amount on Bond Refunding and Bond Premium

Bond issuance costs, deferred amount on bond refundings, and bonds premium for OCDA were transferred to the Successor Agency due to the dissolution of OCDA.

The straight line method of amortization is used to amortize the bond issuance costs, and deferred amounts on bond refunding over the life of the OCDA Tax Allocation Refunding Bonds NDAPP, Series 2001 and Santa Ana Heights Project Area, Series 2003.

The effective interest method is used to amortize the bond premiums of the OCDA Tax Allocation Refunding Bonds NDAPP, Series 2001, and Santa Ana Heights Project Area, Series 2003.

The bond issuance costs and deferred amounts on bond refunding are recorded annually as an interest expense. The bond premiums are recorded annually as a reduction of interest expense.

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 1 – Summary of Significant Accounting Policies (continued)

Property Tax Revenue

ABX 1 26, the state law dissolving California Redevelopment Agencies (RDAs) amended the allocation of property tax revenue to successor agencies. Property Tax Increment that formerly would have been apportioned to OCDA as tax increment are deposited into a trust fund with the County of Orange, known as the Redevelopment Property Tax Trust Fund (RPTTF). The County Auditor – Controller administers the RPTTF on behalf of the former RDA debt holders, and taxing entities that receive pass-through payments and property tax distributions. This fund is used to pay obligations listed on the Recognized Obligation Payment Schedule (ROPS), including bond debt service, approved by the OCDA Successor Oversight Board, and the California Department of Finance. Any remaining monies in the RPTTF after the approved amounts listed on the ROPS have been paid are distributed to the effected taxing entities in the project area.

Note 2 – County of Orange Bankruptcy

Background

On December 6, 1994, the County of Orange (County) filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the Orange County Investment Pool (Pool). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1.6 billion. This loss was recorded on the County's books and records in fiscal year 1994-95 with approximately \$600 million allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts. Approximately \$11.3 million of that loss was allocated to the Orange County Development Agency (OCDA) and was reported in the year ended June 30, 1995.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

The United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered May 16, 1996, confirmed the Plan. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy.

Impact of County Bankruptcy on the former OCDA

As described in Note 1, the former OCDA was a component unit of the County of Orange. Due to statutory and regulatory restrictions, revenues generated by the former OCDA are not available for County General Fund purposes. However, as a result of the State legislation described above, the former OCDA shall pay to the County an amount equal to \$4 million per year, for 20 years beginning on July 1, 1996. The former OCDA's long-term debt obligations are obligations of the former OCDA payable solely from a pledge of the net revenues of the former OCDA and a pledge of the funds and accounts

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 2 – County of Orange Bankruptcy (continued)

established under the trust indenture securing the former OCDA's long-term debt obligations. The former OCDA did not file for bankruptcy protection; however, it was and will be significantly impacted by the County's bankruptcy because of investment losses and the reallocation of \$4 million of its revenue each year until the diversion of funds ends in fiscal year 2015-16.

Impact of Legislation on County Bankruptcy

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in CRA v. Matosantos on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

Effective February 1, 2012, the Orange County Development Agency (OCDA) was eliminated under the provisions of AB 1X 26. As a result of the elimination of OCDA, property tax revenues began being used to pay required payments on existing bonds, other obligations, and pass-through payments to local governments. However, since the County's Bankruptcy Recovery Plan predates AB 1X 26, no interruption to the existing payment schedules is anticipated. In addition, this obligation will be listed on all applicable Recognized Obligation Payment Schedules (ROPS) until 2016 when the obligation expires.

Note 3 – Cash and Investments

The Successor Agency follows the County's policy guidelines for pooling its cash and investments with the County Treasurer. The County Treasurer abides by the Investment Policy Statement (IPS) in investing the Pool's monies.

Pooled Cash and Investments

The County Treasurer maintains the County Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2012, the Pool contains deposits and investments in U.S. government agencies, negotiable certificates of deposits, bankers' acceptances, commercial paper, medium-term notes, repurchase agreements, and money market mutual funds with an average maturity of approximately 359 days. Pooled investments are stated at fair value. The County Treasurer contracts with an outside service to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset value is calculated for the County Pool each business day. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the County Treasurer.

Cash and Investments with Trustee

Cash and investments with trustee represent amounts held by a trustee bank, which are restricted for servicing long-term debt of the Successor Agency as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the types of authorized investments. All investments with trustee are recorded at fair value.

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Note 3 – Cash and Investments (continued)

At June 30, 2012, cash and investments of the Successor Agency are summarized as follows:

Cash and investments pooled by the County Treasurer	\$ 110,381,577
Investments held by trustee:	
Money market mutual funds	2,995,603
Total	<u>\$ 113,377,180</u>

Investment Disclosures

As of June 30, 2012, the major classes of Successor Agency's investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	<u>\$ 110,381,577</u>	\$ -			0.984
Restricted Investment with Trustee:					
Money Market Mutual Funds	<u>2,995,603</u>	<u>2,995,603</u>	Variable	On Demand	-
Total Restricted Investment with Trustee	<u>\$ 2,995,603</u>	<u>\$ 2,995,603</u>			
Portfolio Weighted Average Maturity:					0.958

Interest Rate Risk

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The Agency manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the Investment Policy Statement (IPS). At June 30, 2012, the WAM for the Pool approximated 359 days (0.984 years).

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Successor Agency will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the Successor Agency's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 3 – Cash and Investments (continued)

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (Standard & Poor's), P-1 (Moody's), or F-1 (Fitch). For an issuer of long-term debt, the rating must be no less than an "A".

Note 4 – Land and Improvements Held for Resale

Land and improvements held for resale is recorded at the lower of acquisition cost or estimated net realizable value. At June 30, 2012, the cost of land and improvements is \$1,171,694 with an estimated net realizable value of \$616,477. There was no Successor Agency land parcels sold during the year.

Note 5 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the period February 1, 2012 through June 30, 2012:

	Balance February 1, 2012	Additions	Issuances, Premiums, Deferred Amounts on Refundings and Accretions	Retirements	Balance June 30, 2012	Due Within One Year
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003-SAH	\$ -	\$26,575,000	\$ -	\$ -	\$ 26,575,000	\$1,700,000
Bond premium on Tax Allocation Refunding Bonds, Series 2003-SAH	-	1,157,362	(53,029)	-	1,104,333	(19,125)
Deferred amount on refunding (1993 Orange County Development Agency Revenue Bonds)	-	(1,091,946)	38,179	-	(1,053,767)	(91,632)
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001-NDAPP	-	17,910,000	-	-	17,910,000	1,285,000
Bond premium on Tax Allocation Refunding Bonds, Series 2001-NDAPP	-	176,148	(51,870)	-	124,278	(2,878)
Deferred amount on refunding (1992 Orange County Development Agency Revenue Bonds)	-	(626,497)	22,865	-	(603,632)	(54,875)
Total long-term liabilities:	\$ -	\$ 44,100,067	\$ (43,855)	\$ -	\$ 44,056,212	\$ 2,816,490

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 5 – Long-Term Liabilities (continued)

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights

The former OCDA issued these bonds on November 13, 2003, in the original principal amount of \$38,465,000 at a premium of \$1,660,485. The proceeds of the bonds and other available monies were used to refund and defease the outstanding 1993 Tax Allocation Revenue Bonds, fund a reserve account for the new bonds, and pay the cost of issuing the bonds. The SAH Refunding Bonds, payable through September 2023, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Santa Ana Heights Project Area. The bonds are due in annual principal installments ranging from \$1,340,000 to \$2,855,000 beginning September 1, 2004 through 2023, at interest rates ranging from 2.00% to 5.250%. The principal amount outstanding at June 30, 2012 is \$26,575,000. For the period February 1, 2012 through June 30, 2012, interest paid and total tax increment revenues were \$551,427 and \$2,347,552, respectively.

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001-NDAPP

The former OCDA issued these bonds on July 11, 2001, in the original principal amount of \$26,160,000 at a premium of \$326,700. A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140,000 of the \$27,072,000 outstanding NDAPP Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. The bonds are due in annual principal installments ranging from \$280,000 to \$2,005,000 beginning September 1, 2002 through 2022, at interest rates ranging from 4.00% to 5.50%. The principal amount outstanding at June 30, 2012 is \$17,910,000. For the period February 1, 2012 through June 30, 2012, interest paid and total tax increment revenues were \$359,239 and \$1,738,654, respectively.

On December 29, 2011, the California Supreme Court issued an opinion in California Redevelopment Association (CRA) v. Matosantos, upholding the constitutionality of AB 1X 26, eliminating Redevelopment Agencies (RDA) statewide effective February 1, 2012. Under AB 1X 26, a successor agency was created for each dissolved RDA, including OCDA, and charged with winding down the dissolved RDA's operations and performing enforceable obligations, which include bond debt obligations. The fiscal year 2011-12 SAH and NDAPP Refunding Bonds debt service obligations appeared on the OCDA Successor Agency Recognized Obligation Payment Schedule (ROPS) and were approved by the Successor Agency Oversight Board, the State Department of Finance, and were paid to bondholders according to debt service schedules.

Effective with the OCDA dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the Successor Agency.

The annual requirements to amortize outstanding bonds included in the Statement of Fiduciary Net Assets as of June 30, 2012, including interest, are as follows:

COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012

Note 5 – Long-Term Liabilities (continued)

Years Ending June 30	2003 Tax Allocation Bonds		2001 Tax Allocation Bonds Series A	
	Principal	Interest	Principal	Interest
2013	\$ 1,700,000	\$ 1,265,353	\$ 1,285,000	\$ 879,197
2014	1,760,000	1,202,603	1,340,000	814,238
2015	1,825,000	1,123,978	1,415,000	740,244
2016	1,915,000	1,028,084	1,485,000	664,119
2017	2,015,000	924,921	1,570,000	582,944
2018-2022	11,780,000	2,884,964	9,120,000	1,608,000
2023-2024	5,580,000	272,420	1,695,000	42,375
Total	<u>\$ 26,575,000</u>	<u>\$ 8,702,323</u>	<u>\$ 17,910,000</u>	<u>\$ 5,331,117</u>

Note 6 – Pass-Through Agreements

The former OCDA entered into agreements with various governmental entities to “pass-through” applicable portions of property tax revenues received by the Santa Ana Heights and NDAPP project areas attributable to these entities to the extent that their territorial limits reside within the former OCDA’s project areas. For the period February 1, 2012 through June 30, 2012, tax pass-throughs also include a \$2,000,000 revenue reallocation related to the County’s bankruptcy (Note 2).

Note 7 – Related Party Transactions

The Agency reimbursed a total of \$203,838 to various County departments who assist in the administration of the County’s Successor Agency.

OC Community Services, a department of the County of Orange, is the primary administrative support to the County’s Successor Agency, and is responsible for preparation of all payment schedules, financial reports, and project related matters. OC Community Services also oversees the Orange County Housing Authority, the entity elected to be the County’s Housing Successor Agency. County Counsel provides all legal support services, and OC Public Works’ Corporate Real Estate Unit provides project support on real estate issues. All debt service related matters are handled through the CEO’s Public Finance Unit.

Note 8 – Due To Other Governmental Agencies

Of the Successor Agency’s \$22,893,251 total due to other governmental agencies, \$20,415,754 represents the former OCDA’s Low and Moderate Income Housing Fund (LMIHF) balance available for distribution to the affected taxing entities. In addition, \$2,467,215 represents the AB 1484 demand for payment.

Note 9 – Extraordinary Gain/Loss

Extraordinary items are significant transactions or other events that are both unusual in nature and infrequent in occurrence. They are reported in a separate category in the Statement of Change in Fiduciary Net Assets. The Successor Agency reports the following extraordinary item for the period February 1, 2012 through June 30, 2012:

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 9 – Extraordinary Gain/Loss (continued)

On December 29, 2011, the California Supreme Court upheld the constitutionality of AB 1X26 (The “Dissolution Act”) eliminating the redevelopment agencies in State of California effective February 1, 2012. This action impacted the presentation of Financial Statement of County of Orange that previously had reported the Orange County Development Agency (OCDA) within the reporting entity of the County as a component unit. A Private-Purpose Trust Fund was created accordingly to accept the role serving as a successor agency with respect to the assets and liability of the former OCDA. This fund has been administrated by the County Auditor-Controller as set forth in section 34170.5 under the Bill.

As of the fiscal year ended June 30, 2012, prior to the recording of the dissolution, the final seven months of the activities of OCDA have been reported in the governmental funds of the County. After the date of the dissolution (February 1, 2012), the assets and activities have been reported in the new established private-purpose trust fund in the Statement of Fiduciary Net Assets ("balance sheet") and statement of Change in Fiduciary Net Assets ("income statement"). In addition, the impact of the movement of assets and liabilities of the OCDA from the governmental funds to a private-purpose trust fund resulted in reporting extraordinary loss in the governmental fund and extraordinary gain in the private-purpose trust fund of the County of Orange's financial statements.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the governmental funds is not the same amount as the extraordinary gain that is recognized in the fiduciary fund financial statement. The difference is summarized in the following table:

Ending Equity of the former OCDA at January 31, 2012 (fund level)	\$145,429,783
Transfer of Housing Assets to Orange County Housing Authority (Housing Asset fund in the OC CAFR)	<u>(31,814,901)</u>
Total extraordinary loss reported in the County of Orange's governmental funds - increase to net assets of the Successor Agency Trust Funds	\$113,614,882
Bond issuance costs & deferred amount on bond refunding – as of January 31, 2012 increase to net assets of the Successor Agency Trust Funds (net of amortization)	2,760,141
Accrued bond interest amount – as of January 31, 2012 decrease to net assets of the Successor Agency Trust Funds	(917,670)
Bond issuance premium – as of January 31, 2012 decrease to net assets of the Successor Agency Trust Funds	(1,335,510)
Long-term debt amount – as of January 31, 2012 decrease to net assets of the Successor Agency Trust Funds	<u>(44,485,000)</u>
Net increase to net assets of the Successor Agency Trust Funds as a result of initial transfer – February 1, 2012	<u>\$69,638,843</u>

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 10 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on future financial statements:

In November 2010, GASB issued Statement No. 61, *"The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34."* This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012, which requires the Successor Agency to implement this statement in FY 2012-13.

In December 2010, GASB issued Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* The objective of this statement is to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The requirements of this statement are effective for periods beginning after December 15, 2011, which requires the Successor Agency to implement this statement in FY 2012-13.

In June 2011, GASB issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. In addition, this statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires the Successor Agency to implement this statement in FY 2012-13.

In March 2012, GASB issued Statement No. 65, *"Item Previously Reported as Assets and Liabilities."* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires the Successor Agency to implement this statement in FY 2013-14.

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 10 – New Accounting Pronouncements (continued)

In March 2012, GASB issued Statement No. 66, *“Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.”* This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, which requires the Successor Agency to implement this statement in FY 2013-14.

In June 2012, GASB issued Statement No. 67, *“Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25”* and Statement No. 68, *“Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.”* Both Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The primary objective of these statements is to improve financial reporting by state and local governmental pension plans.

Statement No. 67 replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans* and *Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013, which requires the Successor Agency to implement this statement in FY 2013-14.

Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014, which requires the Successor Agency to implement this statement in FY 2014-15.

**COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

Note 11 – Contingencies/Subsequent Event

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in *CRA v. Matosantos* on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

On January 24, 2012, the Orange County Development Agency (OCDA) adopted its last Enforceable Obligation Payment Schedule (EOPS) for the purposes of memorializing those financial obligations that remained through June 30, 2012. This action also authorized the use of former redevelopment funds to pay those obligations as listed on the EOPS, pending the establishment of an Oversight Board as required by AB 1X 26.

Since the elimination of the Orange County Development Agency (OCDA), the County's Successor Agency has prepared and submitted three (3) Recognized Obligation Payment Schedules (ROPS) for review and approval by the County's Oversight Board as well as the Department of Finance, State Controller's office, and the County Auditor-Controller. To date, the Successor Agency has not received any opposition to any debt service related items presented on the previously submitted ROPS. The County's Successor Agency will continue to list the appropriate debt service obligations on all future ROPS, as needed, and does not anticipate any interruptions to future debt service payments.

Due Diligence Agreed-Upon Procedures Engagement

Assembly Bill 1484 established a requirement for the Successor Agency to remit to the County auditor-controller three payments as determined by the auditor-controller which consist of a payment to be made in July 2012 for taxing entities' share of December 2011 property tax distribution to redevelopment agency/successor agency, a payment to be made in November 2012 related to Low-Moderate Income Housing Fund Due Diligence Review for unencumbered cash, and a payment to be made in April 2013 related to the other Redevelopment Funds Due Diligence Review for unencumbered cash.

As of the date of the report, there was a \$2,467,215 payment required and paid in July 2012. The Successor Agency submitted its Low-Moderate Income Housing Fund Due Diligence Review to the Oversight Board and the Department of Finance on October 17, 2012. The DOF issued a Determination Letter to the Successor Agency on November 14, 2012. In the Determination Letter, the Department of Finance disagreed with the Low-Moderate Income Housing Fund Due Diligence Review's stated balance of \$20,415,754. Under HSC Section 34179.6(e), the Successor Agency held a "Meet and Confer" with the Department of Finance on December 7, 2012. The Department of Finance has indicated that a final Determination Letter will be issued on December 21, 2012. At June 30, 2012, the Successor Agency has accrued the \$20,415,754 balance as Due to Other Governments.

The other Redevelopment Funds Due Diligence Review is currently in process and the unobligated balances available for transfer to taxing entities is not determinable at this time.

COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Combining Statement of Fiduciary Net Assets by Trust Fund
June 30, 2012

	Private-Purpose Trust Funds			
	Redevelopment Retirement Obligation Santa Ana Debt Service	Redevelopment Retirement Obligation NDAPP Debt Service	OCDA Redevelopment Successor Agency	Total
<u>Assets</u>				
Pooled cash and investments (Note 3)	\$ 7,297,663	\$ 34,529,316	\$ 68,554,598	\$ 110,381,577
Restricted assets - cash and investments with trustee (Note 3)	2,995,603	-	-	2,995,603
Due from other Governmental Agencies	-	-	210,703	210,703
Interest receivable	16,822	61,994	133,421	212,237
Land and improvements held for resale (Note 4)	-	-	616,477	616,477
Bond issuance costs	735,557	269,291	-	1,004,848
Total assets	<u>11,045,645</u>	<u>34,860,601</u>	<u>69,515,199</u>	<u>115,421,445</u>
<u>Liabilities</u>				
Current liabilities:				
Bond interest payable	431,701	302,435	-	734,136
Due to other governmental agencies (Note 8)	2,840	2,471,699	20,418,712	22,893,251
Bonds payable, net	1,589,243	1,227,247	-	2,816,490
Noncurrent liabilities:				
Bonds payable, net	25,036,323	16,203,399	-	41,239,722
Total liabilities	<u>27,060,107</u>	<u>20,204,780</u>	<u>20,418,712</u>	<u>67,683,599</u>
<u>Net Assets</u>				
Held in trust for other governments	<u>\$ (16,014,462)</u>	<u>\$ 14,655,821</u>	<u>\$ 49,096,487</u>	<u>\$ 47,737,846</u>

COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Combining Statement of Changes in Fiduciary Net Assets by Trust Fund
For the Period February 1, 2012 through June 30, 2012

	Private-Purpose Trust Funds			
	Redevelopment Retirement Obligation Santa Ana Debt Service	Redevelopment Retirement Obligation NDAPP Debt Service	OCDA Redevelopment Successor Agency	Total
Additions:				
Property tax increment	\$ 2,347,552	\$ 1,738,654	\$ -	\$ 4,086,206
Investment earnings	14,206	76,646	123,952	214,804
Other	-	-	25,000	25,000
Total additions	2,361,758	1,815,300	148,952	4,326,010
Deductions:				
Administrative expenses	24,926	22,448	30,627	78,001
Program expenses of former redevelopment agency	-	-	355,371	355,371
Tax pass-throughs (Note 6)	2,000,000	2,467,215	20,415,754	24,882,969
Interest on long-term debt	551,427	359,239	-	910,666
Total deductions	2,576,353	2,848,902	20,801,752	26,227,007
Transfers-internal activities	(2,000,000)	-	2,000,000	-
Extraordinary gain/(loss) (Note 9)	(13,799,867)	15,689,423	67,749,287	69,638,843
Change in net assets	(16,014,462)	14,655,821	49,096,487	47,737,846
Net Assets - February 1, 2012	-	-	-	-
Net Assets - June 30, 2012	\$ (16,014,462)	\$ 14,655,821	\$ 49,096,487	\$ 47,737,846



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Oversight Board
County of Orange Redevelopment Successor Agency
Santa Ana, California

We have audited the financial statements of the County of Orange Redevelopment Successor Agency (the Successor Agency), a private purpose trust fund of the County of Orange, California, as of June 30, 2012, and for the period of inception (February 1, 2012) to June 30, 2012, and have issued our report thereon dated December 18, 2012. Our report includes an emphasis of matter paragraph noting that Assembly Bill 1X 26 was upheld and declared constitutional by the California Supreme Court on December 29, 2011. As part of its decision, the Supreme Court established the date of dissolution for redevelopment agencies to be February 1, 2012. The redevelopment agencies in California, including the Orange County Development Agency (the Agency), were terminated and successor agencies were appointed to wind down the affairs of the former redevelopment agencies in accordance with the provisions of Assembly Bill 1X 26. The County of Orange has elected to be appointed as Successor Agency for purposes of winding down the affairs of the Agency. As a result, the Agency dissolved on February 1, 2012. The fund balances of the former Orange County Development Agency funds were transferred to a private purpose trust fund of the County of Orange on February 1, 2012. Additionally, as of February 1, 2012, certain assets were transferred to the Orange County Housing Authority. Our report also included an explanatory paragraph stating that the financial statements present only the Successor Agency and do not purport to, and do not, present fairly the financial position of the County of Orange, California, as of June 30, 2012, and the changes in its financial position, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Successor Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Successor Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Successor Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Successor Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Successor Agency's Oversight Board, County of Orange, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinik, Trine, Day & Co. LLP

Laguna Hills, California
December 18, 2012

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APPENDIX F

FISCAL CONSULTANT'S REPORT

**COUNTY OF ORANGE AS SUCCESSOR AGENCY
1710 NORTH BROADWAY, SANTA ANA, CA 92706**



FISCAL CONSULTANT REPORT 2013 TAX ALLOCATION REFUNDING BONDS

**Santa Ana Heights Redevelopment Project Area
County of Orange as Successor Agency to the
Orange County Development Agency**

December 5, 2013

ROSENOW SPEVACEK GROUP, INC.
www.webrsg.com

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INTRODUCTION

The County of Orange as Successor Agency to the Orange County Development Agency ("Agency") desires to refinance existing bonded indebtedness in the Agency's Santa Ana Heights Redevelopment Project Area ("Project Area"). This Fiscal Consultant Report ("FCR") has been prepared by Rosenow Spevacek Group, Inc. ("RSG") at the request of the Agency¹ in order to substantiate available tax revenues to be generated from the Project Area.

The primary function of this FCR is to illustrate the ability of future revenues from tax increment ("Revenue Projections") to pay debt obligations. In addition to the Revenue Projections and general methodology and assumptions made in preparation of the Revenue Projections, this FCR presents historical assessment and revenue information, as well as other pertinent information pertaining to the Project Area. The following tables and exhibits are provided as back-up and support for the Revenue Projections.

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¹ Compensation paid to RSG by the Agency for preparation of this FCR is not contingent upon the sale of bonds.



BACKGROUND

The Agency adopted the Redevelopment Plan for the Project Area on July 15, 1986 by Ordinance 3595 to undertake and manage redevelopment projects and activities under California Health and Safety Code Sections 33000, et seq. ("H&S Code"). The Project Area includes the John Wayne Airport, Upper Newport Bay Regional Park, and the Santa Ana Heights neighborhood. The Project Area was adopted to upgrade substandard public improvements and infrastructure, provide financial assistance to attract and retain businesses, rehabilitate deteriorating structures, and to complement the County of Orange's ("County") adopted Land Use Compatibility Program for the Santa Ana Heights neighborhood. This program was designed to improve the environmental relationship between the John Wayne Airport and the Santa Ana Heights community. Though originally an unincorporated area of the County, a significant portion of the Santa Ana Heights neighborhood was subsequently annexed by the City of Newport Beach.²

RECENT CHANGES TO REDEVELOPMENT LAW

Due to Assembly Bill x1 26 ("ABx1 26"), upheld by the California State Supreme Court in December 2011, all redevelopment agencies were dissolved on February 1, 2012. This action implemented significant changes to the H&S Code, including severe restrictions on any redevelopment activities, as well as changes to the method for collection and distribution of tax increment. For each dissolved redevelopment agency, a successor agency was created to wind down redevelopment activities and oversee payment of all valid debts, including bond indebtedness. When the Orange County Development Agency was dissolved, the County of Orange elected to become the Successor Agency to the Orange County Development Agency.

Unlike redevelopment agencies, successor agencies are not allocated all tax increment in a project area. Instead, successor agencies are allocated available revenues in amounts necessary to pay valid debts, or Recognized Obligations, according to schedules created by the successor agency every six months. These schedules are known as Recognized Obligation Payment Schedules, or "ROPS". All property tax formerly known as tax increment amounts are now collected by the County Auditor Controller and distributed pursuant to Health and Safety Code Section 34183. Former tax increment is distributed in the following priority: (1) County and State administrative fees; (2) taxing agency (pass-through) payments; (3) successor agency debts, including bond debt, as identified on the ROPS; (4) successor agency administrative costs; and (5) remaining money is shared among the project area's affected taxing agencies. It should be noted that pass through payments that were subordinated to bond issues remain subordinate under ABx1 26. Additionally, the Low and Moderate Housing Set Aside requirements were eliminated under ABx1 26 and subsequent legislation Assembly Bill 1484 (together, the "Dissolution Act").

On a technical note, the Dissolution Act essentially eliminated the term "tax increment", and refers instead only to property taxes, though the process for determining the property tax amounts subject to the Dissolution Act is still determined in the same way they were prior to dissolution, where a base year value is subtracted from a current year value. For clarity, this FCR continues to use the term tax increment to refer to those property taxes generated in the Project Area above the established base year value.

² Annexation became effective July 1, 2003, but made no changes to the assessed value or boundaries of the Project Area.



REDEVELOPMENT PLAN LIMITATIONS

The Project Area Redevelopment Plan contains certain time and financial limitations regarding the collection of tax increment revenue, incurring bonded indebtedness, redevelopment plan effectiveness, and the use of eminent domain. Figure 1 summarizes these limitations.

Santa Ana Heights Redevelopment Plan Limitations	Figure 1
Incur Debt	July 15, 2006
Plan Life	July 15, 2026
Receive Increment	July 15, 2036
Eminent Domain	July 15, 1998*
Bonded Debt Limit	\$100 million**
2013 Limit	\$209,483,577
Tax Increment Limit	\$10 million/yr.**
2013 Limit	\$20,948,358

* Eminent domain authority in the Santa Ana Heights Project Area expired on July 15,

** Limits provide for Consumer Price Index adjustment

Despite the dissolution of redevelopment agencies, adopted limitations generally remain in effect. Consistent with H&S Code Section 33333.6, the Agency shall not repay indebtedness with property tax increment revenues after July 15, 2036. Furthermore, the Redevelopment Plan for the Project Area establishes a limit on the amount of bonded indebtedness which can be outstanding at one time, which is \$100 million in principal amount, adjusted annually for the Consumer Price Index, resulting in a current 2013 cap of \$209,483,577, well above the amount being considered for this refunding action, which is the only bonded indebtedness for the Project Area. The limitation on the amount of tax increment revenue that can be collected by the Agency is \$10 million per year, also adjusted by the Consumer Price Index, and currently at \$20,948,358. It is not anticipated that the Project Area will ever generate enough tax increment to exceed its annual cap. Gross tax increment for 2013-14 is expected to be approximately \$11 million.



HISTORICAL ASSESSED VALUATION & REVENUES

The ad valorem property tax system in California dictates property taxes to be based upon a 1 percent general levy tax rate applied to non-exempt local and state secured and unsecured assessed valuations. In accordance with the H&S Code and the Redevelopment Plan, the Agency collects tax increment revenue generated by increases in assessed valuation above the base year assessed valuation, or the assessed valuation at the time a project area is adopted. Each year the local roll is released by the Orange County Assessor ("County Assessor") to the Orange County Auditor-Controller ("County Auditor"), who establishes the equalized assessment roll and provides a report of Project Area assessed valuations for the current fiscal year and base year.

The fiscal year 1985-86 base year assessed valuation for the Project Area is \$226,651,538 as reported by the County Auditor in 2013-14. Base year assessed valuations can occasionally fluctuate, often due to formerly exempt land uses being sold for private purposes, or conversely private property purchased by a government becoming exempt. For the purposes of this Report, the Agency's tax increment revenues are projected based upon future assessed valuation in excess of the base year assessed value currently in use by the County Auditor, as detailed in Figure 2.

Based Year Assessed Valuation FY 1985-86		Figure 2
Santa Ana Heights Redevelopment Project		
	Net Assessed Valuation	
Secured	105,430,374	
Unsecured	121,221,164	
Total	\$226,651,538	

Source: Orange County Auditor-Controller

Figures 3 and 4 provides a five-year historical summary of assessed valuations and tax increment revenues generated from the Project Area. Based upon current and base year assessed valuations provided in Figure 3, the fiscal year 2013-14 incremental assessed valuation for the Project Area is \$1,110,347,050, which serves as the basis for the Revenue Projections. Note that the Project Area is on the County's Teeter Plan, under which the County Auditor distributes billed amounts prior to full collections. Delinquent secured and secured supplemental tax payments and penalties are then collected and kept by the County.



**COUNTY OF ORANGE AS SUCCESSOR AGENCY
FISCAL CONSULTANT REPORT**

**Historical Assessed Valuations & Revenues
Santa Ana Heights Redevelopment Project**

Figure 3

	2009-10	2010-11	%Δ	2011-12	%Δ	2012-13	%Δ	2013-14	%Δ
Secured	852,131,700	764,806,756		765,471,418		812,488,910		884,780,871	
Unsecured	662,671,838	612,962,648		535,260,521		511,842,287		452,217,717	
Total Assessed Value ¹	1,514,803,538	1,377,769,404	-9.05%	1,300,731,939	-5.59%	1,324,329,197	1.81%	1,336,998,588	0.96%
Less: Base Year	(226,651,538)	(226,651,538)		(226,651,538)		(226,651,538)		(226,651,538)	
Incremental Assessed Value	1,288,152,000	1,151,117,866	-10.64%	1,074,080,401	-6.69%	1,097,677,659	2.20%	1,110,347,050	1.16%
Tax Levy Rate	1.00%	1.00%		1.00%		1.00%		1.00%	
Estimated Revenue									
Tax Increment	12,881,520	11,511,179		10,740,804		10,976,777		11,103,471	
Less: County Admin Fee ²	(107,416)	(114,007)		(109,352)		(118,911)		(122,138)	
Net Estimated Revenue	12,774,102	11,397,172	-10.78%	10,631,452	-6.72%	10,857,866	2.13%	10,981,332	1.14%
Actual Receipts/Deposits^{3,4}	12,704,417	10,833,971	-14.72%	10,376,058	-4.24%	10,873,844	4.81%	10,981,332	0.99%

¹ Net of non-homeowner exemptions.

² Actual administrative fee (\$87557) levied per the Orange County Auditor Controller. Note fee charge lags by a year; e.g. the 2009-08 charge is for the 2007-08 FY.

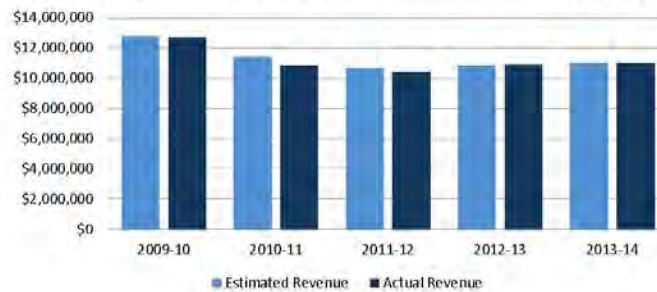
³ Prior to dissolution, amounts shown were allocated to OCDA. Post dissolution, amounts are deposited into Redevelopment Property Tax Trust Fund (RPTTF). FY 2013-14 RPTTF deposit is estimated, not actual.

⁴ The Auditor Controller will process current year refunds, or other changes in the net levy subsequent to the equalized roll, which will produce minor variations between estimated revenues and actual collections.

Sources: Orange County Auditor Controller

Santa Ana Heights Revenue Estimates and Actuals

Figure 4



TOP TAXPAYERS

SECURED VALUE TAXPAYERS

The Project Area's top 10 secured taxpayers are shown in Figure 5.

Top Ten Secured Roll Taxpayers **Figure 5**
Santa Ana Heights Redevelopment Project

Taxpayer	# of Parcels	Land Value	Improvement Value	Total	% of Total
1 100 Bayview LLC	3	\$ 30,184,539	\$ 68,659,338	\$ 98,843,877	11.0%
2 SK Hart Bayview LLC	4	11,142,713	43,647,365	54,790,078	6.1%
3 De Marco, James R TR Goelete Trust	1	22,003,721	7,311,011	29,314,732	3.3%
4 HMH Properties Inc	3	7,406,690	16,329,190	23,735,880	2.6%
5 Ferrado Bayview LLC	3	7,282,800	7,553,304	14,836,104	1.6%
6 Southwest Airlines Co	2	11,192,304	3,470,759	14,663,063	1.6%
7 AZNL-NTC LLC	1	5,716,970	7,007,122	12,724,092	1.4%
8 Mickey Motors	2	3,612,742	7,913,424	11,526,166	1.3%
9 Arden Realty Limited Partnership	1	6,013,512	5,430,888	11,444,400	1.3%
10 MK Las Casitas LLC	1	8,843,400	1,976,760	10,820,160	1.2%
Subtotal	21	\$ 113,399,391	\$ 169,299,161	\$ 282,698,552	31%
Total Secured Value	1,493	\$ 501,951,939	\$ 398,001,946	\$ 899,953,885	100.0%

Note: Total values exclusive of exemptions. None of the top 10 taxpayers are currently subject to an exemption.

Source: County of Orange 2013-14 Equalized Property Tax Roll (District 875A, FY 2013-14, Received August 29, 2013)

The Project Area's top secured taxpayers were identified based upon property owners with the largest secured taxable assessed valuation presented by the County Assessor's 2013-14 Equalized Roll. The Project Area's largest secured property taxpayers possess 21 parcels with a combined value of approximately \$282 million, or 31 percent of the Project Area's taxable secured assessed valuation.

With John Wayne Airport ("JWA") as a major, government-owned, land use in the Project Area, RSG performed additional research on land leases that generate property tax. Of the top ten secured taxpayers, only values related to Southwest Airlines are the result of a land lease at JWA. Secured value at JWA in 2013-14 totals \$50,929,880, or 5.8 percent of the total secured value in the Project Area. There are 351 parcels contributing to secured value at JWA, though 216 of them have a value below \$10,000. Figure 6 details the top ten taxpayers leasing land at JWA.



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Top Ten Secured Values at JWA **Figure 6**
Santa Ana Heights Redevelopment Project

	Taxpayer	# of Parcels	Secured Value	% of Total
1	Southwest Airlines Co	2	\$ 14,663,063	1.7%
2	American Airlines	2	7,216,109	0.8%
3	United Airlines	2	6,776,916	0.8%
4	Delta Airlines Inc	2	4,816,366	0.5%
5	Alaska Airlines Inc	2	4,434,400	0.5%
6	Continental Airlines Inc	3	3,890,727	0.4%
7	U.S. Airways, Inc.	2	2,408,936	0.3%
8	Frontier Airlines Inc	2	1,939,938	0.2%
9	Federal Express Corp	2	628,195	0.1%
10	Mesa Airlines Inc	2	466,899	0.1%
	Subtotal JWATop Ten Lease Values	21	\$ 47,241,549	5.3%
	Total Secured Parcels	1,493	\$ 884,780,871	100.0%

Source: County of Orange 2013-14 Equalized Property Tax Roll (District 875A, FY 2013-14, Received August 29, 2013)

Note that the assessment of leaseholds is prescribed by law. A lease of 35 years or more is considered by the County Assessor to be the equivalent of a property transfer, and an assessable event. Leases less than 35 years are assessed based in part on the value of the lease, which decreases over time, i.e. a lease of 10 years is more valuable than the following year at 9 years. Therefore, secured value resulting from leaseholds can be expected to decrease annually until the lease is renewed, when revenues may jump upwards. Staff at JWA reports that while some older leases were as long as 20 years, current preferences are to enter into leases of 5 to 10 years. Such terms mean a faster "cycling" of value, as the value of the lease could be expected to decline for only 5 to 10 years before renewal, as opposed to a longer term. As noted before, less than six percent of the secured value of the Project Area is associated with leases at JWA.

UNSECURED TAXPAYERS

As shown in Figure 3, about 38 percent of the Project Area's assessed value is unsecured. Figure 7 below shows the top 10 unsecured taxpayers in the Project Area for 2013-14, and their history of value over the prior three years. Note that each of the top ten is an air carrier. Airtran Airways was a recent addition to JWA, beginning service in June 2012, so it makes its first appearance on the equalized roll in 2013-14. A discussion of air carrier assessments follows later in this FCR.



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**Top Ten Unsecured Taxpayers 2013-14 & Historical Values
Santa Ana Heights Redevelopment Project**

Figure 7

Taxpayer Name	2013-14		2012-13		2011-12		2010-11	
	Personal Property Value	%	Personal Property Value	%	Personal Property Value	%	Personal Property Value	%
1 Southwest Airlines Co	\$ 111,579,167	25%	\$ 112,041,978	22%	\$ 111,604,894	21%	\$ 122,995,868	20%
2 American Airlines Inc	\$ 79,886,288	18%	\$ 79,119,326	15%	\$ 70,337,258	13%	\$ 68,842,720	11%
3 United Airlines Inc	\$ 35,973,557	8%	\$ 33,497,549	7%	\$ 40,651,766	8%	\$ 38,570,026	6%
4 Alaska Airlines Inc	\$ 33,088,750	7%	\$ 38,763,419	8%	\$ 42,936,988	8%	\$ 51,243,644	8%
5 Delta Air Lines Inc	\$ 28,509,143	6%	\$ 57,901,695	11%	\$ 47,186,757	9%	\$ 71,149,296	12%
6 Continental Airlines Inc	\$ 23,664,103	5%	\$ 25,941,200	5%	\$ 34,464,836	6%	\$ 36,576,461	6%
7 US Airways Inc	\$ 15,019,028	3%	\$ 22,581,236	4%	\$ 18,322,119	3%	\$ 9,308,812	2%
8 Netjets Aviation Inc	\$ 14,515,064	3%	\$ 17,089,631	3%	\$ 21,193,185	4%	\$ 25,474,366	4%
9 Airtran Airways Inc	\$ 14,440,613	3%	N/A		N/A		N/A	
10 Skywest Airlines Inc	\$ 13,042,731	3%	\$ 9,949,151	2%	\$ 9,561,757	2%	\$ 8,539,073	1%
Subtotal of 10	\$ 369,713,444	82%	\$ 396,885,185	76%	\$ 396,259,560	74%	\$ 432,700,266	71%
Total Unsecured	\$ 452,217,717	100%	\$ 511,842,287	100%	\$ 535,280,521	100%	\$ 612,962,648	100%

Note: Sorted based on top ten airlines in 2013-14 unsecured tax roll. Personal property value excludes personal aircraft, which is not included in tax increment pursuant to the Redevelopment Plan.

Sources: 2010-11 Orange County Unsecured Tax Roll, 2011-12 Orange County Unsecured Tax Roll, 2012-13 Orange County Unsecured Tax Roll, and 2013-14 Orange County Unsecured Tax Roll.

Finally, a combined secured and unsecured top ten taxpayers has been included as Figure 8, to clearly illustrate the property owners responsible for the largest shares of value in the Project Area.

**Top Ten Secured and Unsecured Taxpayers
Santa Ana Heights Redevelopment Project**

Figure 8

Taxpayer Name	# of Parcels	Personal Property Value	Land Value	Improvement Value	Total Value
1 Southwest Airlines Co	2	\$ 111,579,167	\$ 11,192,304	\$ 3,470,759	\$ 126,242,230
2 100 Bayview LLC	3	-	30,184,539	68,659,338	98,843,877
3 American Airlines Inc	3	79,886,288	5,469,937	1,746,172	87,102,397
4 SK Hart Bayview LLC	4	-	11,142,713	43,647,365	54,790,078
5 United Airlines Inc	2	35,973,557	5,135,683	1,641,233	42,750,473
6 Alaska Airlines Inc	2	33,088,750	3,376,270	1,058,130	37,523,150
7 Delta Air Lines Inc	2	28,509,143	3,663,593	1,152,773	33,325,509
8 De Marco, James R TR Goelete Trust	1	-	22,003,721	7,311,011	29,314,732
9 Continental Airlines Inc	3	23,664,103	2,951,682	939,045	27,554,830
10 HMM Properties Inc	3	-	7,406,690	16,329,190	23,735,880
Subtotal Top 10	25	\$ 312,701,008	\$ 102,527,132	\$ 145,955,016	\$ 561,183,156
Total Secured and Unsecured Value	1493	\$ 452,217,717	\$ 501,951,939	\$ 398,001,946	\$ 1,352,171,602

Note: Personal property value excludes personal aircraft, which is not included in tax increment pursuant to the Redevelopment Plan. Values listed not net of exemptions, though none apply to top ten taxpayers shown here.

Sources: 2013-14 Orange County Unsecured and Secured Tax Rolls



SECURED ASSESSED VALUATIONS BY LAND USE

Figure 9 provides a summary of the distribution of Project Area parcels and secured assessed valuation by type of land use. As illustrated in the table, the majority of the Project Area's secured assessed valuation is property used for residential uses (51.7%), with significant commercial uses (43.6%), and miscellaneous uses (4.8%), most of which is attributed to leases at John Wayne Airport.

Secured Assessed Valuation by Land Use					Figure 9
Land Use	No. of Parcels	Acres	Assessed Value ¹	% of Area Value	
Commercial	95	123	\$ 352,987,096	43.6%	
Residential	886	214	\$ 418,459,406	51.7%	
Single Family	765	175	344,058,264		
Condominium	106	17	45,732,627		
Multi Family	15	22	28,668,515		
Miscellaneous ²	387	N/A	\$ 38,663,147	4.8%	
Total	\$ 1,368	337	\$ 810,109,649	100%	

¹ Values are net of exemptions. Minor variations in values from reported roll are expected.

² Miscellaneous uses are associated with JWA, many pay possessory interest, records are not associated with an acreage.

Source: First American CoreLogic, as reported 8/5/2013 (2012-13 roll)

As single family residential units (exclusive of condominiums) comprise a significant portion of the Project Area's value, recent sales values are shown in Figure 10. Note that sales in the Project Area are increasing in volume over the last two years, with sales in 2012 more than double in number than 2010 and 2011, and the first seven months of 2013 are equal to, or in excess of, 2010 and 2011. Average and median sales values are also trending upwards. The median home sale price for the entire Project Area, regardless of year purchased, is currently \$535,680.

Historical Single Family Home Sales **Figure 10**
Santa Ana Heights Redevelopment Project

Calendar Year	# of Sales	Value of All Sales	Average Sale Price	Median Sale Price
2008	11	\$ 5,497,000	\$ 499,727	\$ 400,000
2009	14	8,528,500	609,179	618,000
2010	22	13,772,500	626,023	650,000
2011	20	9,800,000	490,000	542,500
2012	48	32,096,500	668,677	627,500
2013*	22	15,621,000	710,045	634,500

* Sales through July 31, 2013

Source: First American CoreLogic, Inc.



TAX INCREMENT REVENUE PROJECTIONS

METHODOLOGY & GENERAL ASSUMPTIONS

The overall methodology for projecting tax increment revenues is to begin with the most recently available assessed valuations (fiscal year 2013-14) and 1 percent general levy tax rates (fiscal year 2012-13³) and to make conservative adjustments for possible future events that could have an impact on the growth or decline of assessed valuations and property tax revenues. The following discussion articulates key factors that could impact the Agency's property tax revenues from the Project Area.

GROWTH ASSUMPTIONS

Article XIII A (Proposition 13) Inflationary Adjustments

Article XIII A of the California Constitution, enacted in 1978 by California Proposition 13, and State Board of Equalization ("SBOE") Rule 460, subdivision (b)(5) provide that the "full value of real property shall be modified to reflect the percentage change in the cost of living . . . provided that such value shall not reflect an increase in excess of 2 percent of the taxable value of the preceding lien date." The California Consumer Price Index ("CCPI") establishes the inflation rate used to determine the "percentage change in cost of living."

In most years, the CCPI has exceeded 2 percent and has resulted in an upward adjustment to the valuation of real property by 2 percent. Since 1978, there have been seven occurrences when the inflationary adjustment was less than 2 percent. This occurred in fiscal years 1983-84, 1995-96, 1996-97, 1999-00, 2004-05, 2010-11, and 2011-12; the inflationary adjustments for these fiscal years were 1.01%, 1.0119%, 1.0111%, 1.01853%, 1.01867%, 0.99736%, and 1.00753%, respectively.

In December 2012, the SBOE announced the CCPI from October 2011 to October 2012 increased by 3.081% and directed county assessors to prepare the fiscal year 2013-14 assessment rolls based upon an inflation factor of 2%. This marks the second consecutive year of a return to the typical 2% inflationary factor following the nationwide economic recession that resulted in a reduced factor for two years. As the Proposition 13 inflationary factor is historically 2%; an annual 2% increase in secured assessed valuation is assumed for the remaining years of the Revenue Projections.

Changes in Valuation from Sales

The taxable assessed valuation of a property may increase or decrease based upon the net change in its sales price and the property's existing taxable assessed valuation. Due to the January 1st lien date, changes in value due to property sales occurring during calendar year 2013 will not be on the Orange County Equalized Assessment Roll until fiscal year 2014-15. The following analysis estimates the change in assessed valuation for fiscal year 2014-15 attributable to actual real property ownership changes occurring between January 1, 2013 and June 30, 2013. As shown below in Figure 12, there were a total of 24 real property sales from January to June 2013, which will result in an estimated \$3.1 million increase in secured assessed valuation on the fiscal year 2014-15 Orange County Assessment Roll, based upon data collected from Metroskan, a real estate product of First American Real Estate Solutions. Assessed valuations for fiscal year 2014-15 would be further impacted by additional sales occurring between July 1, 2013 and December 31, 2013.

³ General levy ("AB8") factors for the 2013-14 fiscal year are not anticipated until mid-September 2013. AB8 factors typically have little to no fluctuation from year to year, and are not expected to change in 2013-14.



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Change in Assessed Value Due to Sales

Figure 11

Santa Ana Heights Project Area

Date	Number of Sales	Landuse(s)	Sale Value	Original Value	Value Added/ (Subtracted)
January 2013	3	Single Family Residential	2,080,000	1,510,497	569,503
February 2013	5	Single Family Residential, Condominium	2,211,000	1,873,801	337,199
March 2013	6	Single Family Residential, Condominium	3,891,000	2,197,382	1,693,618
April 2013	4	Single Family Residential, Condo, Commercial	5,750,000	5,870,120	(120,120)
May 2013	3	Single Family Residential, Condominium	2,135,000	1,921,240	213,760
June 2013	3	Single Family Residential, Condominium	2,454,000	1,997,553	456,447
Total	24		\$ 18,521,000	\$ 15,370,593	\$ 3,150,407

Santa Ana Heights 2013-14 Secured Assessed Value	\$ 884,780,871
Value to be Added to Secured Roll Due to Sales	\$ 3,150,407
Percent Change from 2013-14 Secured Roll	0.36%

Source: American CoreLogic

Changes in Valuation for Building Improvements

Building permit data was obtained from the County as well as the City of Newport Beach, which is the local jurisdiction for much of the Project Area following annexation. At this time, only improvements to JWA are reported within the County's jurisdiction, which as a wholly exempt land use are not expected to generate any additional value for the Project Area. Approximately 50 parcels in Newport Beach were associated with building permits, however, the majority were related to replacements and remodels, which are not considered assessable events by the County Assessor. A limited amount of commercial tenant improvements were reported, which could trigger assessment under certain circumstances, and 2 single family homes were reported to be constructing minor expansions; however, to remain conservative, no additional value was assumed for these Revenue Projections.

Supplemental Roll Revenue

Supplemental roll revenue ("Supplemental Revenue") was identified from actual tax increment payment receipts and included in revenues shown in Figure 3 "Historical Assessed Valuations and Revenues". Supplemental revenue is the revenue generated from a supplemental tax bill, which is issued when a property sale occurs or construction is completed after January 1st (the Assessor's cut-off date for the next year's assessment roll). A supplemental tax bill is used for the period between the sale or completion of construction and the next regular tax bill. Supplemental Revenue can be unpredictable; consequently, these revenues are not included in the Revenue Projections.

Unsecured Values and Aircraft

One of the most notable features of the Project Area is JWA (International Air Transportation Association code SNA) which sits on approximately 500 acres and served nearly 9 million travelers in 2012, an increase of 3 percent over 2011. It is the only airport in Orange County served by major airline carriers including Air Tran, Alaska Airlines, American Airlines, Delta Airlines, Frontier Airlines, Interjet, Southwest Airlines, United Airlines, US Airways, and Westjet. A major expansion adding six gates and a parking garage in a new terminal was opened approximately a year ago, which helped facilitate the addition of three new carriers. Other renovation projects continue to be performed throughout the airport.



JWA also allows for general aviation, with approximately 450 personal aircraft.⁴ The Santa Ana Heights Redevelopment Plan specifically excludes personal aircraft from the definition of tax increment: "No taxes levied on 'aircraft' as that term is defined in California Revenue and Taxation Code Section 5303 shall be allocated to the Agency. . ." The relevant Revenue and Taxation Code Section defines "aircraft" as any contrivance used or designed for navigation of, or flight in the air, except: (1) rockets or missiles; (2) aircraft operated by an air carrier as defined by the US Code Title 49, Section 40102(a)(2) and (21); or (3) air taxis. US Code Title 49, Section 40102(a)(2) and (21) defines an air carrier as anyone providing air transportation. As seemingly broad as this definition is, the intended exclusion, and practical interpretation of the Redevelopment Plan is that all commercial aircraft that offer transportation services are within the definition of tax increment, while personal aircraft that is not for hire, per se, is outside the definition of tax increment. The County Auditor's system allows for staff to code personal aircraft separately, as a "B2" tax type, which is allocated pursuant to Revenue and Taxation Code Section 5453, and not included as tax increment.

As shown earlier in Figures 2 and 3, unsecured values play a significant role in the Project Area's total assessed value, currently accounting for 34 percent in 2013-14. Most of this value is attributable to the commercial air carriers located at JWA. Aircraft assessments are done differently than secured property assessments. According to the County Assessor's Office, not only is the value of the aircraft considered, but also the amount of time it spends at the airport. The value of aircraft is not subject to Proposition 13, and like cars or machinery, depreciates over time, thus older planes have a lower value. Therefore, the unsecured assessed value associated with the air carriers is contingent upon corporate decisions and industry-wide trends related to both fleet upgrades and investments, and the amount of "ground time" spent at JWA, as described in more detail below.

Air carrier assessment is based upon Revenue and Taxation Code Section 1150 to 1156, which provides a statutory method for calculating the assessment of air carriers.⁵ An air carrier is only taxed if they qualify for situs at a location, which essentially is defined as the intentional landing and the disembarking of passengers, freight, or crew. Emergency landings and trial runs for training pilots or testing planes do not qualify as situs for assessment purposes. The County Assessor must confirm that an air carrier has situs at JWA. For commercial passenger and cargo fleets, this is fairly straightforward as published schedules are readily available; for air taxis that may not adhere to strict schedules, records are obtained from JWA management.

Each year, the State Board of Equalization ("SBOE") is required to establish a representative period for each air carrier. Typically, different periods are chosen for different types of carriers, cargo carriers will likely be given a different period than passenger carriers. A limited amount of air carriers, operating under 12,500 pound maximum weight do not fall into any of the established carrier categories, and do not receive a representative period from the SBOE. It is the responsibility of the County Assessor to contact these carriers and determine a category to assign them for purposes of establishing the representative period. This representative period, usually a week, is then analyzed to determine "average" behavior of an air carrier, specifically looking at two factors: (1) flight and ground time, and (2) arrivals and departures. A weighted factor is established according to statutory formula that effectively gives a determination of how much of an aircraft's value can be assigned to a particular location. Data is derived from operating schedules in effect, the Civil Aeronautics Board's Schedule T-3, and when necessary, carriers' records.

⁴ County of Orange, John Wayne Airport Annual Report 2012

⁵ Assessor's Handbook, Section 570, State Board of Equalization



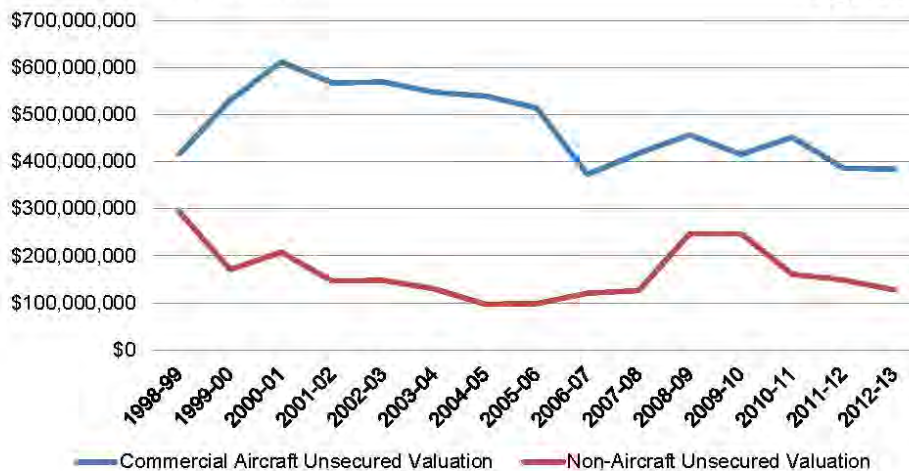
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The County Assessor must then consider the valuation of the aircraft and equipment. Air carriers are required to submit form AH 570-3, which includes the aircraft number, make, model, year, and acquisition cost. The County Assessor then determines a "percent good" factor to apply to the acquisition cost based upon age, and technological obsolescence, and other factors. The County Assessor also reviews sales of similar aircraft. Once the cash value is established, the weighting factor described earlier is applied, giving a value allocation utilized by the County Assessor as the taxable value for aircraft at JWA.

Figure 12 was created to show unsecured value trends, bifurcating commercial air carriers and remaining unsecured value between 1998-99 and 2012-13. It is interesting to note that while non-commercial aircraft values have trended downward overall, the commercial aircraft 2012-13 value in total is very similar to the values in 1998-99. Moreover, the values are consistently and significantly higher than the base year unsecured valuation of \$121 million, due to the fact that the modern JWA was not functional until 1990, after establishment of the Project Area.⁶ Given the nature of air carrier assessments, value is likely to be cyclical based upon upgrades to fleets, or changes in travel patterns and time spent at JWA. Other changes to the airline industry could also impact JWA, for example, on November 12, 2013, American Airlines and US Airways announced a settlement agreement that enabled the merger of the two airlines. At this time, it is unknown whether the merger will affect JWA. However, increases in travelers served and the recent expansion all speak to the relevance of JWA, therefore unsecured air carrier value is expected to remain a key component in the Project Area's assessed value. Nevertheless, in order to present a conservative assessed value growth projection, a 14 year average annual decrease of -1.6% was projected for the next five years, and then held constant. Note that the 14 year average annual change for commercial aircraft alone is 0.33%.

Unsecured Value Trends

Figure 12



⁶ Prior to 1990 and the opening of the Thomas F. Riley terminal of approximately 340,000 square feet, JWA's sole terminal was just under 30,000 square feet.



Proposition 8 Reassessments & Assessment Appeals

California Proposition 8 was a constitutional amendment to Proposition 13 that allows a temporary reduction in assessed valuation when a property suffers a decline-in-value. Proposition 8 requires the Assessor to enroll the lower of either: (1) the taxable value (market value of the property when it was acquired plus a consumer price index adjustment of up to 2 percent per year, plus the value of any new construction); or (2) the market value as of the annual January 1 lien date. Reductions in assessed valuation under Proposition 8 are temporary and are reviewed annually until the Proposition 13 base year value is again lower than market value and then the Proposition 13 base year value is reinstated. Reductions in assessed valuation pursuant to Proposition 8 may be initiated by the Assessor or result from owner initiated assessment appeals.

Assessor Initiated Reassessments

The County Assessor has proactively reviewed properties for the last several years to make necessary adjustments in value due to the market decline resulting from the recession that followed the housing boom, felt acutely in Southern California. Overall, the County Assessor reports a county-wide increase in secured assessed value of 3.6 percent in 2013-14. Despite the improving economy marked by new housing starts, reductions in unemployment, and overall increases in sales values, some properties' market values remain below their Proposition 13 values - a total county-wide reduction of about \$33 billion in value. As a part of the preparation of the 2013-14 assessed value roll, the County Assessor reviewed approximately 273,000 properties that are, or could be subject to a Proposition 8 reduction. About 60 percent of those properties were assessed at the same value as 2012-13, and the remaining 40 percent experienced a small increase in value.

Owner Initiated Assessment Appeals

Property owners who believe that their taxable valuation is above a property's market valuation may file a "Decline-in-Value" application. Historical information regarding assessment appeals for the Project Area was collected from the Orange County Assessment Appeals Board ("Appeals Board") and tabulated in Figure 13. As illustrated by the table, the number of assessment appeals requests in the Project Area has been declining in the years following the housing market crash, most likely due to the proactive Proposition 8 reductions initiated by the County Assessor. Of the 1,493 parcels in the Project Area, 87 have filed an assessment appeal in the last five years. Of those, 34 resulted in a stipulation or reduction from the Appeals Board, in a total amount of approximately \$45 million. Note that only 3 appeals of value have been filed for commercial aircraft in the past five years, and none were granted reductions.

Five-Year Assessment Appeals History Figure 13
Santa Ana Heights Redevelopment Project

Appeal Status	2008	2009	2010	2011	2012	5 Year Total
Stipulated/Reduced	12	13	8	4	0	35
Withdrawn/Denied	18	16	8	8	2	52
Total	30	29	14	12	2	87
Total Value of Properties Under Appeal Portion of Project Area	\$ 122,476,241 7.94%	\$ 286,471,592 18.91%	\$ 24,631,046 1.79%	\$ 12,277,110 0.94%	\$ 1,152,412 0.09%	\$ 447,008,401
Total Project Area Secured and Unsecured Value	\$ 1,542,433,460	\$ 1,514,803,538	\$ 1,377,769,404	\$ 1,300,731,939	\$ 1,324,329,197	
Requested Reductions	\$ 10,126,545	\$ 48,956,569	\$ 6,763,051	\$ 1,210,525	\$ -	\$ 66,956,690
Granted Reductions	\$ 4,174,224	\$ 36,899,569	\$ 2,968,612	\$ 763,500	\$ -	\$ 44,805,905
Portion of Total Project Area Value	0.271%	2.436%	0.215%	0.059%	0.000%	
Average Reductions	\$ 347,852	\$ 3,074,964	\$ 494,769	\$ 190,875	\$ -	\$ 1,317,821
Portion of Total Project Area Value	0%	0%	0%	0%	0.06%	

Historical Rate Total Requested Reduction Value vs. Granted Value for Stipulated/Reduced Values Only 59.9%

¹ Applicant proposed reduction
Note only 3 appeals of aircraft values have been submitted between 2008 and 2012. None were stipulated or reduced.
Source: Orange County Assessment Appeals Board via Clerk of the Board Office



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For illustrative purposes, Figure 14 provides a parity test to illustrate reductions on a county-wide basis. The parity test is based upon the total reduction in value from successful appeals on a countywide basis for 2008 through 2011. Note that like the Project Area, the total amount of value appealed has been trending downwards.

Countywide Average Reduction Calculation **Figure 14**
Santa Ana Heights Redevelopment Project

Appeal Year	2008	2009	2010	2011
Total Roll Assessed Value	\$ 11,283,716,948	\$ 15,526,582,999	\$ 10,131,766,603	\$ 4,404,590,556
Board Approved Value	\$ 9,921,279,152	\$ 13,844,507,584	\$ 8,954,824,914	\$ 3,896,737,096
Granted Reduction	\$ 1,362,437,796	\$ 1,682,075,415	\$ 1,176,941,689	\$ 507,853,460
Percent Reduction	12.1%	10.8%	11.6%	11.5%

According to information from the County Assessor received on July 23, 2013, 12 of the top twenty taxpayers, for a total of 20 appeals, had filed an appeal of value over the last five years. Nine of the 20 appeals filed were withdrawn or denied. The remaining 11 were reduced/stipulated, accounting for a total reduction in value of \$40,046,954, or nearly all of the granted reductions in the Project Area. Approximately \$24 million of the reduction is associated with a commercial single parcel, containing a large-scale, Class A office building.

Tax Rates

The Agency currently receives tax increment revenue from the Project Area based on the general 1 percent tax levy rate and override, as shown in Figure 15.

Taxing Agency Shares **Figure 15**
Santa Ana Heights Redevelopment Project

Orange County General Fund	0.0563341975
Educational Revenue Augmentation Fund	0.1615828261
Orange County Public Library	0.0072243228
Newport Beach City	0.1179818637
Costa Mesa City	0.0002052256
Coast Community College General Fund	0.0728157922
Newport-Mesa Unified General Fund	0.2612202197
Rancho Santiago Community College General Fun	0.0328324624
Santa Ana Unified General Fund	0.1493175322
OC Department of Education General Fund	0.0191108586
Orange County Cemetery District General Fund	0.0005893196
OC Fire Authority General Fund	0.0484793638
Orange County Transit Authority	0.0033269293
OC Flood Control District	0.0234437341
OC Parks CSA 26	0.0181217963
Orange County Vector Control District	0.0013232835
Costa Mesa Sanitary District General Fund	0.0006501624
OC Sanitation General Fund	0.0194636010
Orange County Water District	0.0058849485
Irvine Ranch Water District	0.0000915609
Total	1.0000000000

Source: Orange County Auditor Controller, 2013-14



Low and Moderate Income Housing Fund Deposits

Previous to the Dissolution Act, the former Orange County Development Agency was required to deposit not less than 20 percent of its gross tax increment revenues into a fund ("Housing Fund") for the purposes of creating and preserving the supply of housing available to persons and families of very-low, low, and moderate income in accordance with H&S Code Section 33334.2. The County Auditor is not required to make this set aside as a part of RPTTF allocations. However, as the legislation is relatively new, and has already resulted in many lawsuits, the 20 percent set aside has been maintained in the projections to be conservative.

Taxing Agency Pass Throughs

H&S Code recognizes three types of pass throughs to affected taxing agencies: negotiated agreements (Section 33401) typically for project areas formed prior to January 1, 1994; inflationary pass throughs (Section 33676), also applicable to project areas formed prior to January 1, 1994; and statutory pass through agreements (Sections 33607.5 and 33607.7), applicable to project areas formed on or after January 1, 1994 as well as project areas where certain amendments have been made to the redevelopment plan. As a pre-1994 redevelopment plan, that has not been amended in a manner that triggers statutory pass throughs, the Project Area pays only pays negotiated and inflationary pass throughs to certain taxing entities as described below.

Negotiated Taxing Agency Agreements

Both the Orange County Water District ("OCWD") and Orange County Flood Control District ("Flood Control") have negotiated agreements for revenue sharing pass throughs. The April 16, 1986 agreement with OCWD provides for 100 percent pass through of tax increment for the following tax rate areas: 83-014, 55-047, 55-010, 55-016, 07-091, 07-030, 07-008, and 07-057, based on OCWD's share of the general levy. Tax rate areas do change from time to time, and RSG has determined that all tax rate areas are subject to this pass through with the exception of current tax rate areas 83-007 and 83-013. Additionally, the Agency shall pass through inflationary revenues only for tax rate areas 83-027 (now 83-007) and 83-013.

The July 8, 1986 negotiated agreement with Flood Control calls for a 100 percent pass through in an amount equal to Flood Control's share of the general levy for the entire project area.

Inflationary Taxing Agency Payments

In 2001, the State Court of Appeals upheld a Superior Court decision that the Santa Ana Unified School District was entitled to receive inflationary payments pursuant to H&S Code Section 33676(a). Pursuant to this former code section, unless a negotiated tax sharing agreement had been entered into, affected taxing agencies could elect to be allocated tax revenues resulting from increases in assessed values in a project area based on the inflationary growth as defined in the Revenue and Taxation Code Section 110.1(f). The decision, often referred to as the "Santa Ana Decision," essentially declared that all school and community college districts should be allocated inflationary revenues, provided the subject project area was adopted during a time period that Section 33676(a) was in effect, and that no negotiated tax sharing agreement exists. Under this decision, all school districts in the Project Area receive inflationary pass throughs: Santa Ana Unified School District, Newport-Mesa Unified School District, Coast Community College District, Rancho Santiago Community College District, and the Orange County Department of Education.

Bankruptcy Payments

H&S Code Section 33670.9 obligates the Agency to make annual payments to the County's general fund pursuant to the 1994 County bankruptcy court proceedings. The Agency is required to transfer \$4 million of tax increment annually, generally in two equal installments on June 15th and February 15th of each year for twenty years commencing with July 1, 1996. As such, the Agency is required to



COUNTY OF ORANGE AS SUCCESSOR AGENCY
FISCAL CONSULTANT REPORT

continue payments until the final payment is made in February 2015. The Agency may make this payment out of tax increment generated in Santa Ana Heights, or the County's other redevelopment project area, the Neighborhood Development and Preservation Project ("NDAPP"). In most years, approximately \$2.3 million was paid from Santa Ana Heights, with the remaining \$1.7 million being paid from NDAPP. In the final years of the former OCDA, the entire \$4 million was paid from Santa Ana Heights due to other endeavors underway in NDAPP. Repayment of bankruptcy debt is subordinate to debt service on bond debt. However, even if the burden of the entire \$4 million per year was borne solely by the Project Area, adequate revenue is expected to fund all debt.

Tax Collection Fee

Actual tax increment disbursements are reduced to reflect the tax collection fee charged by the County Auditor pursuant to Senate Bills 2577 and 813. The tax collection fee varies from year-to-year based on actual costs incurred by the County for administration of property taxes to the Agency. The County Auditor reported that the tax collection fee in fiscal year 2011-12 (charged in 2013) was approximately 1.17 percent of tax increment revenues. An analysis of previous years revealed a lower rate, about 0.95% or less; however, as a part of the Dissolution Act, county auditors had increased duties, resulting in higher costs. It is important to note that the Dissolution Act provides priority for administrative funding to county auditors, senior to pass throughs and debt obligations. Based on conversations with County staff, it is believed that 2011-12 rates are unusually high due to the implementation of new systems to process tax increment under the new legislation, and that fees should reduce. As such, the Revenue Projections continue to assume a County tax collection fee of 1.10 percent of gross tax increment revenues, though this amount may reduce over time as the dissolution process becomes more streamlined.



DISCLAIMER

RSG has attempted to take into account pertinent factors during the preparation of the Revenue Projections and this FCR. Our goal is to provide realistic revenue projections without overstating future property tax revenues. While precautions have been taken to assure the accuracy of the data used in the formulation of these Revenue Projections, it cannot be assured that projected valuations or revenues will be realized. Future events and conditions that cannot be controlled may affect actual assessed valuations and revenues.



TAX INCREMENT PROJECTIONS

Santa Ana Heights Redevelopment Project Area

Figure 16

2013-14 PROJECTED TAX INCREMENT REVENUES

Assumed Growth Rate of 2% Secured, 5 Year Reduction of 1.0% in Unsecured, then 0%

Fiscal Year	Assessed Value				Estimated Gross Tax Increment	County A/C Admin Fee	HSC 33676 Payment by Auditor Controller	Low/Mod Housing Set Aside ²	Pass Throughs		Remaining Non-Housing TI After Pass Throughs
	Secured 3.00%	Unsecured -1.00% 0.00%	Total Sec/Unsec	Incremental					O.C. Flood Control Pass Thru	O.C. Water District Pass Thru	
Base Year:					1%	1.10%		20%			
1995-96	\$ 105,430,374	\$ 121,221,164	\$ 226,651,538								
2013-14	\$ 904,700,811	\$ 452,217,717	\$ 1,356,908,508	\$ 1,110,347,050	\$ 11,103,471	\$ 122,138	\$ 459,220	\$ 2,128,948	\$ 260,207	\$ 84,291	\$ 9,069,556
2014-15	805,895,885	444,802,234	1,250,698,129	1,120,857,591	11,238,576	173,535	483,277	2,151,280	259,498	85,090	8,162,027
2015-16	823,739,433	437,862,519	1,261,601,951	1,134,950,413	11,349,504	124,845	507,505	2,168,340	258,075	85,716	8,215,724
2016-17	947,214,222	430,858,718	1,378,072,940	1,148,418,402	11,464,194	128,188	532,823	2,188,274	268,764	88,280	8,283,047
2017-18	951,058,506	423,868,010	1,365,021,516	1,158,369,978	11,583,700	127,421	558,341	2,205,072	271,565	87,072	8,354,220
2018-19	988,279,577	417,179,602	1,397,459,278	1,170,807,740	11,708,077	126,789	584,370	2,224,741	274,481	87,792	8,427,904
2019-20	998,895,270	417,179,602	1,417,064,872	1,180,413,334	11,804,133	130,845	610,920	2,248,843	278,077	88,827	8,505,921
2020-21	1,019,882,975	417,179,602	1,437,062,577	1,210,411,039	12,104,110	133,145	638,000	2,269,222	283,766	90,065	8,585,892
2021-22	1,040,280,635	417,179,602	1,457,460,237	1,230,808,899	12,305,097	135,399	665,622	2,328,493	288,546	91,286	8,618,760
2022-23	1,081,086,248	417,179,602	1,478,265,850	1,251,614,312	12,516,143	137,579	693,787	2,384,488	293,425	92,471	8,654,903
2023-24	1,082,307,873	417,179,602	1,489,487,575	1,272,836,037	12,728,360	140,812	722,535	2,401,185	295,400	93,700	8,692,049
2024-25	1,103,854,132	417,179,602	1,521,033,734	1,294,482,186	12,944,822	142,593	751,848	2,436,595	303,475	94,953	8,733,558
2025-26	1,125,832,216	417,179,602	1,543,011,818	1,316,581,278	13,165,613	144,822	781,747	2,476,773	308,651	96,232	8,777,368
2026-27	1,148,553,879	417,179,602	1,565,733,481	1,339,081,940	13,390,919	147,299	812,244	2,515,715	313,931	97,508	8,824,095
2027-28	1,171,524,957	417,179,602	1,588,704,559	1,362,053,020	13,620,530	149,826	843,251	2,555,436	319,216	98,888	8,873,736
2028-29	1,194,955,458	417,179,602	1,612,135,060	1,385,483,520	13,854,835	152,403	875,080	2,595,951	324,809	100,272	8,926,370
2029-30	1,218,854,685	417,179,602	1,636,034,187	1,408,382,628	14,092,826	155,032	907,443	2,637,277	330,412	101,805	8,982,058
2030-31	1,243,231,056	417,179,602	1,660,411,258	1,432,759,720	14,337,597	157,714	940,454	2,679,429	336,127	103,018	9,040,056
2031-32	1,268,006,289	417,179,602	1,685,275,891	1,458,624,353	14,588,244	160,449	974,126	2,722,424	341,956	104,457	9,100,832
2032-33	1,293,458,215	417,179,602	1,710,637,817	1,483,985,279	14,839,853	163,238	1,008,470	2,766,279	347,902	105,836	9,163,048
2033-34	1,319,327,319	417,179,602	1,736,506,921	1,509,835,443	15,098,554	166,084	1,043,502	2,811,011	353,966	107,424	9,226,568
2034-35	1,345,715,827	417,179,602	1,762,895,429	1,536,241,951	15,362,420	168,987	1,079,234	2,856,637	360,152	108,852	9,293,458
2035-36 ¹	1,372,625,205	417,179,602	1,789,804,807	1,563,196,285	15,631,653	171,947	1,115,881	2,903,178	366,462	110,510	9,363,188
					\$300,936,042	\$ 3,516,285	\$ 11,568,889	\$ 56,688,229	\$ 1,655,085	\$ 1,447,483	\$ 214,269,076

¹ Redevelopment Plan allows receipt of monies until July 15, 2036, but for purposes of this projection, the final 15 days of collection has been eliminated.

² Under current Health and Safety Code, the 20% housing set aside was eliminated. It is shown here to assure a conservative projection.

Note: Annual loan/lease payments not shown, as subordinate to debt service. A total of up to \$4 million per year payments is required from 2013-14 to 2016-17 from either the County's two project areas, in any combination of funding support.



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APPENDIX G

STATE DEPARTMENT OF FINANCE LETTER



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. ■ GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

November 22, 2013

Mr. Steve Franks, Director, Orange County Community Resources
Orange County
1770 North Broadway
Santa Ana, CA 92706

Dear Mr. Franks:

Subject: Approval of Oversight Board Action

The Orange County Successor Agency (Agency) notified the California Department of Finance (Finance) of its October 24, 2013 Oversight Board (OB) resolution on October 28, 2013. Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance has completed its review of the OB action.

Based on our review and application of the law, OB Resolution No. 13-004, approving the issuance and sale of tax allocation refunding bonds, is approved.

The OB resolution along with the accompanying Successor Agency resolution states that the Agency will proceed with the refunding of the 2003 Orange County Development Agency Tax Allocation Bonds for the Santa Ana Heights Project Area, if criterion set forth in HSC section 34177.5 (a) (1) and/or HSC section 34177.5 (g) are met.

Following the issuance of the bonds, the Agency's debt service payment obligations for the refunding bonds should be placed on a future Recognized Obligation Payment Schedule for Finance's review.

Please direct inquiries to Nichelle Thomas, Supervisor, or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Jeff Kirkpatrick, Administrative Manager, Orange County
Mr. Frank Davies, Property Tax Manager, Orange County

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APPENDIX H

SUPPLEMENTAL INFORMATION – THE COUNTY OF ORANGE DEMOGRAPHIC AND ECONOMIC OVERVIEW

The following economic data for the Orange County (the “County”) is presented for information purposes only. The Bonds are not a debt or obligation of the County.

General

The County is third most populous county in California and is located adjacent to the Pacific Ocean and the Counties of Los Angeles, San Bernardino, Riverside and San Diego. The County is located in the most heavily populated region of California, necessitating easy access to road, rail, air and sea transportation. The County is also a major Southern California tourist center with a large number of amusement parks and recreational and entertainment activities. The County’s Pacific Coast shoreline includes five state beaches and parks, five Municipal beaches and five County beaches.

The County is a charter county and governed by a five-member Board of Supervisors, each of whom serves for four-year terms. The County provides a wide range of services to its residents, including police, medical and health services, senior citizen assistance, library services, judicial institutions (including support programs), airport service, roads, solid waste management, harbors, beaches and parks, life guard services and a variety of public assistance programs.

Population

The following table summarizes population estimates for the County and State from 2001 through 2013.

POPULATION ESTIMATES Orange County and the State of California 2001-2013

<u>Year</u>	<u>Orange County</u>	<u>California</u>
2001	2,889,908	34,512,742 ⁽¹⁾
2002	2,914,438	34,938,290 ⁽¹⁾
2003	2,939,719	35,388,928 ⁽¹⁾
2004	2,956,482	35,752,765 ⁽¹⁾
2005	2,957,151	35,985,582 ⁽¹⁾
2006	2,955,433	36,246,822 ⁽¹⁾
2007	2,965,823	36,552,529 ⁽¹⁾
2008	2,982,788	36,856,222 ⁽¹⁾
2009	2,998,816	37,077,204 ⁽¹⁾
2010	3,010,232	37,253,956 ⁽¹⁾
2011	3,028,846	37,427,946 ⁽²⁾
2012	3,057,879	37,668,804 ⁽²⁾
2013	3,081,804	37,966,471 ⁽²⁾

⁽¹⁾ January 1 data. Years 2001-2010 with 2000 and 2010 Census Counts.

⁽²⁾ Years 2011-2012 with 2010 Census Benchmark.

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

Income

The following tables show the personal income and per capita income for the County, State of California and United States from 2005 through 2011.

PERSONAL INCOME **Orange County, State of California, and United States** **2005-2011**

<u>Year</u>	<u>Orange County</u>	<u>California</u>	<u>United States</u>
2005	\$139,408,948	\$1,387,661,013	\$10,476,669,000
2006	150,598,354	1,495,533,388	11,256,516,000
2007	153,446,641	1,566,400,134	11,900,562,000
2008	155,925,156	1,610,697,843	12,451,660,000
2009	145,247,447	1,516,676,660	11,852,715,000
2010	147,138,449	1,564,209,194	12,308,496,000
2011	154,131,535	1,645,138,372	12,949,905,000

Note: Dollars in Thousands.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME ⁽¹⁾ **Orange County, State of California, and United States** **2005-2011**

<u>Year</u>	<u>Orange County</u>	<u>California</u>	<u>United States</u>
2005	\$47,417	\$38,731	\$35,452
2006	51,359	41,518	37,725
2007	52,342	43,211	39,506
2008	52,720	44,003	40,947
2009	48,624	41,034	38,637
2010	48,760	41,893	39,791
2011	50,440	43,647	41,560

⁽¹⁾ Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment

The following table summarizes the labor force, employment and unemployment figures from 2008 to 2013 for the County and State of California.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Orange County and the State of California 2008-2013⁽¹⁾

	<u>Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2008	Orange County	1,618,400	1,533,100	85,300	5.3
	State of California	18,207,300	16,893,900	1,313,500	7.2
2009	Orange County	1,589,600	1,448,800	140,700	8.9
	State of California	18,215,700	16,151,100	2,064,600	11.3
2010	Orange County	1,592,500	1,441,500	151,000	9.5
	State of California	18,330,500	16,063,500	2,267,000	12.4
2011	Orange County	1,600,100	1,460,100	140,000	8.8
	State of California	18,404,500	16,237,300	2,167,200	11.8
2012	Orange County	1,618,700	1,496,000	122,700	7.6
	State of California	18,494,900	16,560,300	1,934,500	10.5
2013	Orange County	1,631,743	1,529,629	102,114	6.3
	State of California	18,608,957	16,899,257	1,709,714	9.2

Notes: Data is based on annual averages (2013 is based on the average of January through July) and is not seasonally adjusted. Figures may not add due to rounding.

Source: California Employment Development Department.
March 2012 Benchmark.

Industry

The following table summarizes employment figures by industry for the Santa-Ana-Anaheim-Irvine Metropolitan Division, which is located entirely within the County.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES
Santa Ana-Anaheim-Irvine Metropolitan Division
(Orange County)
2008-2012

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Farming	4,600	3,800	3,700	3,200	3,200
Mining and Logging	600	500	500	500	500
Construction	91,200	74,200	68,000	68,300	67,500
Manufacturing	174,100	154,800	150,400	153,600	154,400
Wholesale Trade	86,700	79,400	77,600	77,900	78,300
Retail Trade	155,600	142,300	140,100	141,600	146,600
Transportation, Warehousing and Utilities	29,300	27,800	26,700	27,500	27,400
Information	30,100	27,300	24,800	23,800	24,300
Financial Activities	113,100	105,100	103,500	103,900	106,700
Professional and Business Services	266,600	240,200	243,500	246,700	254,000
Education and Health Services	150,700	152,100	155,500	158,700	161,100
Leisure and Hospitality	176,400	169,100	168,600	173,200	180,400
Other Services	46,500	42,600	42,200	42,800	43,400
Government	<u>160,800</u>	<u>156,600</u>	<u>152,300</u>	<u>149,600</u>	<u>145,900</u>
Total:	1,486,200	1,375,900	1,357,400	1,371,300	1,393,700

Note: Items may not add to total due to independent rounding.

Source: California Employment Development Department, Labor Market Information Division. March 2011 Benchmark.

Largest Employers

The following table presents the largest employers in the County during 2013.

COUNTY OF ORANGE
TOP TEN EMPLOYERS
(2013)

<u>Employer Name</u>	<u>Number of Employees (Full and Part-Time)</u>
Walt Disney, Co.	25,000
University of California, Irvine	21,800
County of Orange	17,257
St. Joseph Health System	11,679
Boeing Company	6,873
Kaiser Permanente	6,300
Bank of America Corp.	6,000
MemorialCare Health System	5,545
Target Corp.	5,400
Cedar Fair LP	5,200

Sources: Orange County Business Journal, 2013 for all employers other than the County; number of County employees, provided by the County Budget Office, number of positions for fiscal year 2012-13.

Building Activity

COUNTY OF ORANGE BUILDING PERMIT VALUATIONS AND PERMITS ISSUED

	2008	2009	2010	2011	2012	2013 ⁽¹⁾
Permit Valuation						
Residential*	\$ 1,037,713	\$ 853,193	\$ 1,029,407	\$ 1,236,973	\$ 1,627,262	\$ 1,949,511
Nonresidential*	1,439,120	952,480	1,151,929	1,300,929	1,269,448	1,351,842
Number of Deeds Recorded	87,435	103,316	105,379	102,537	130,317	156,431

Source: The Chapman University Economic & Business Review, June 2013.

* Permit valuations are in (ooo's)

(1) 2013 reflects year-end forecast

Taxable Sales

The history of taxable transactions (in thousands) in the County from 2007 through the first half of 2012 is shown in the following tables.

COUNTY OF ORANGE TAXABLE SALES 2007-2012

<u>Year</u>	<u>Retail Permits</u>	<u>Retail and Food Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2007	44,093	\$38,988,227	99,088	\$57,293,471
2008	45,705	35,768,595	97,612	53,606,829
2009	56,259	31,162,619	90,231	45,712,784
2010	58,076	32,552,107	92,047	47,667,179
2011	58,795	35,587,795	92,207	51,731,139
2012 ⁽¹⁾	60,273	9,625,470	93,183	13,809,860

⁽¹⁾ Reflects taxable transactions through the first half of calendar year 2012.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.