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ANNUAL REPORT

For 2012-13 Fiscal Year

2011 Tax Allocation Bonds
Series A & B

Reedley Successor Agency

Reedley Redevelopment Project

March 2013

Section A - Introduction

In February 2011, the former Reedley Redevelopment Agency issued its 2011 Tax Allocation Bonds, Series A and B (Bonds) in the amount of $8,825,000. As part of the issuance of the Bonds, the Agency executed a Continuing Disclosure Certificate. The Disclosure Certificate was executed and delivered by the Agency for the benefit of the holders and beneficial owners of the bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

The Disclosure Certificate requires the Agency to file an Annual Report with each National Repository and each State Repository (if any) no later than eight months after the close of the fiscal year. The Annual Report must therefore be filed by March 31 of each year. There are currently no State Repositories in California.

The Annual Report needs to contain or incorporate by reference the following financial information or operating data on the Reedley Redevelopment Project Area (Project Area):

- The ten major secured assessees in the Project Area, including name, type of use, secured value and percent of total value;
- Discussion of any property tax appeals by any of the ten major secured assessees which could have a material adverse effect on Tax Revenues (as defined in the Indenture of Trust dated February 1, 2011);
- Annual tax increment revenues, Tax Revenues and coverage ratio of Tax Revenues to debt service on the Bonds and all Parity Debt (as defined in the Indenture);

The Annual Report must also contain the Audited Financial Statements of the Agency prepared in accordance with generally accepted accounting principles.

This Annual Report (Report) provides the required information for the Agency's fiscal year ending June 30, 2012 and includes data on annual tax increment revenues for the 2012-13 and future fiscal years. The balance of this Report shows the required financial information and operating data and was provided by Fraser & Associates, the Agency's redevelopment consultant. The Audited Financial Statements have been submitted under separate cover.

The original redevelopment plan for the Project Area was adopted in July 1991. The Redevelopment Plan was amended in July 1996 to add territory and extend certain time limits. For the balance of this Report, the original portion of the Project Area is referred to as the Original Area and the territory added in 1996 as the Amended Area.

The value and revenue estimates contained in the following section of this Report are based upon information and data which the Agency believes to be reasonable and accurate. To a certain extent, the estimates of revenue are based on assumptions that are subject to a degree of uncertainty and variation and therefore are not represented as results that will actually be achieved. However, Fraser & Associates has conscientiously prepared them for the Agency on the basis of their experience in the field of financial analysis for redevelopment agencies.

AB 26 – Redevelopment Dissolution Act

In December 2011, the California Supreme Court issued its opinion in the case of *California Redevelopment Association, et al., v. Matosantos, et al.* The Court upheld the right of the state to dissolve redevelopment agencies pursuant to AB 26. Based on modified time lines approved by the Court, all redevelopment agencies, including the Reedley Redevelopment Agency, were dissolved effective February 1, 2012. The City of Reedley has assumed the role of Successor Agency and is charged with winding down the affairs of the former Agency and to make payments due on enforceable obligations, as defined in AB 26. The Bonds are an enforceable obligation under AB 26.

One of the key provisions of AB 26 states:

> *"It is the intent of this part [Part 1.85, governing post-dissolution activities and obligations] 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."*

While the intent of this section of AB 26 is to protect the repayment of enforceable obligations, the practical implementation of the legislation changes the flow of funds from that which existed at the time the Bonds were sold, as described herein. Under AB 26, tax increment is no longer deemed to flow to the Successor Agency. Rather, all funds are considered property taxes. The obligation to deposit a portion of the tax increment into a low and moderate income housing fund is also no longer required. Given this, the financial information on tax increment provided in the Official Statement for the Bonds now varies from the way in which property tax funds are allocated under AB 26. The Successor Agency cannot provide an absolute assurance that AB 26 will not have an adverse impact on the timely payment of debt service, although such payments were fully made during the first year that AB 26 has been in effect.

Under AB 26, the County Auditor-Controller is to determine the amount of property taxes that would have been allocated to each redevelopment agency had the agency not been dissolved. All former tax increment monies go into a Redevelopment Property Trust Fund (Trust Fund or RPTTF) which is controlled by the County Auditor-Controller.

The money in the Trust Fund is used as follows:

1. Allocate to the County property tax administrative fees and other costs needed to implement AB 26.

2. Pay all pass-through payments to the taxing entities. The former Project Area has an obligation to make payments required pursuant to negotiated agreements pursuant to former Section 33401 of the Community Redevelopment Law and also payments per Section 33607.5 and 33607.7 of the CRL. Some of the Section 33401 payments are subordinate to debt service on the Bonds, but AB 26 has reordered this obligation so that it gets paid first. AB 26 does provide that if there are insufficient funds to meet bond debt service payments, then the subordinate pass through payment amount may be used to close any shortfalls.
3. Pay obligations required per the Recognized Obligation Payment Schedule (ROPS). The senior obligation payable from former Tax Revenues and housing set-aside revenues listed on the ROPS is payment of debt service on the Bonds.
4. Pay the administrative allowance, which goes to the Successor Agency to be used to wind down the affairs of the former redevelopment agency.
5. Distribute the balance to the taxing entities pursuant to Section 34188 of AB 26.

Since a portion of both the Series A and B Bonds were payable from the housing set-aside, and there is no longer a separate allocation of those revenues into a low and moderate income housing fund, those bond payments are an enforceable obligation and are payable from the Trust Fund.

The allocations from the Trust Fund take place in two six-month installments, in January and June of each year. The Successor Agency prepares a forward-looking ROPS to cover the subsequent six-month period. Once approved by the Oversight Board and the state Department of Finance, the County Auditor-Controller releases the Trust Fund revenues to pay for the obligations on the ROPS. By way of illustration, funds released in June 2012 generally reflect property taxes that were collected during the period from January through May 2012. The approved ROPS covered costs that were paid during the period from July through December 2012. Any excess Trust Fund revenue not needed to meet the various obligations shown in items 1 through 4 above would be reallocated to the taxing entities. The six-month allocation system in AB 26 can cause a problem in meeting debt service payments, since semiannual debt service payments on the Bonds are uneven. Interest payments are made in May each year, while principal and interest payments are made in November. This problem has been resolved by including a reserve for bond payments on the January 1-June 30 ROPS so that those funds can be carried over and applied to the November debt service payments. The section on Tax Revenue and Coverage below includes a description and a table that shows how this works.

Financial and Operating Data

This section of the Report includes the Top Ten Assessees and information on assessment appeals in the Project Area. It also includes information on annual tax increment revenues, Tax Revenues and coverage ratios on the Bonds.

Top Ten Assessees

The Top Ten Assessees in the Project Area are summarized on Table 1. The table includes the name of each major assessee, the use of the property, the 2013-14 value of the assessee and the percentage each represents to the total value of the Project Area for 2012-13. The taxable value for the Top Ten Assessees represents 17.57 percent of the total value of the Project Area and 35.32 percent of the incremental value of the Project Area.

Assessment Appeals

Taxpayers may appeal their property tax assessments. As required for the Annual Report, the Agency has requested information on recently resolved and open appeals for the Top Ten Assessees and has been notified that there are none.

Proposition 8 Appeals

A number of counties in California, including Fresno County, formally announced that they would process temporary assessed value reductions for certain properties (Proposition 8 reductions) where the assessed values exceeded the current market value of properties as of January 1, 2012 without prompting from individual taxpayers. Typically, the properties to be reviewed by the various counties for these "automatic" reductions are single family homes and condominiums which transferred ownership between 2001 and December 31, 2012. These announcements were triggered because residential property values have decreased in many areas of the state.

We reviewed information on residential parcel value changes between 2008-09 and 2010-11 and determined that 601 units received Proposition 8 reductions that totaled $25 million. This represented an average value decline of 26 percent for the period through December 31, 2009. For 2011-12, taxable values in the Original Area went down by an additional $5.7 million. Much of this was likely due to further Proposition 8 reductions. Maxco Supply went down by a total of $10 million in the Amendment Area, which appeared to be unrelated to appeals or Proposition 8 reductions. Rather, the reductions appear to have been from the removal of personal property and fixtures. For 2012-13, taxable values in the Project Area went down by approximately $10 million. Most of this appears to have occurred because a property owned by Sierra Homes that was shown as taxable in 2011-12 in the amount of $5.1 million is now tax exempt. In addition, the value of fixtures and improvements for Gerawan Farms went down by $1.4 million and BRC Partners went down by $1 million due to a Proposition 8 reduction. When these are factored in, taxable values for the balance of the Project Area were largely stable, including residential areas.

Annual Tax Increment Revenues

Table 2 provides information on the annual tax increment revenues of the Project Area for 2012-13. The 2012-13 value of secured and unsecured property shown on Table 2 is based on information derived from the records of Fresno County. Tax increment generated from the application of the one percent tax rate to incremental taxable value for 2012-13 is estimated at $2.5 million.

Tax Revenues

The tax increment revenues of the Project Area were subject to certain adjustments and liens prior to AB 26, as described in this section. The adjustments and liens were to be paid prior to the payment of debt service on the Bonds.

Adjustments to Tax Increment

There are two adjustments to the tax increment revenues shown on Table 2: property tax administrative fees and allocations pursuant to former Section 33676 of the Community Redevelopment Law.

State law allows counties to charge taxing entities, including redevelopment agencies, for the cost of administering the property tax collection system. The fees have been estimated and shown on Table 2 based on the percentage that the fees represented to total tax increment in 2010-11. For 2011-12, the fee amount was low, and so we have not used the amount from that fiscal year to estimate future fees.

For project areas adopted prior to January 1994, taxing entities could elect to receive additional property taxes above the base year revenue amount so long as they had not entered into a pass through agreement with an agency under former Section 33401 of the Health & Safety Code. Such amounts are calculated by increasing the real property portion of base year values by an inflation factor of up to 2 percent annually. Taxing entities can receive a proportionate share of such revenues if they elected to do so prior to adoption of the redevelopment plan. The City of Reedley elected to receive additional allocations of property taxes generated in the Original Area. Such amounts have been shown on Table 2.

Senior Obligations

Housing Set-Aside

Redevelopment agencies were required to deposit not less than 20 percent of the tax increment generated in a project area into a special fund to be used for qualified low and moderate income housing programs. The Agency restricted a portion of a prior bond issue (that was refunded with the Bonds) to eligible housing activities. Therefore, a portion of bond debt service was being made from the housing set-aside revenues of the Project Area.

Tax Sharing Payments

The Agency has entered into tax sharing agreements with the County of Fresno and the Fresno County Library District that provide for the Agency to allocate to the County and the Library 100 percent of the County's and Library's share of the taxes attributable to the one-percent increment levy on the Original Area.

The Agency also has an agreement with the Consolidated Mosquito Abatement District that provides for the Agency to allocate to the District an amount equal to .205 percent of the annual net tax increment received by the Agency for each fiscal year from the Original Area. Net tax increment is defined as the Agency's tax increment less property tax administrative costs charged by the County of Fresno.

Pursuant to AB 1290, which was passed in 1994, the Agency will be required to make payments to those affected taxing entities that have not entered into a tax sharing agreement in the Original Area. These payments are required because the Agency extended the debt incurrence time limit by ten years. Payments will only be due on increases in tax increment revenues attributable to assessed value growth above the 2011-12 assessed values. This is referred to as the AB 1290 Base Year. Since the values of the Original Area are currently below the levels in 2011-12, such payments will not be required in 2012-13. The payments are based on a three tier formula. All payments are made after the required 20 percent deposit to the housing set-aside fund. For purposes of the table below, we have reduced the percentage of tax increment that must be allocated to the taxing entities by the 20 percent housing set aside. The Agency is also required to make these payments to all taxing entities for tax increment received from the Amendment Area.

Tier	Payment Required
Tier 1	Original Area: 20% of tax increment attributable to assessed value growth above the amount of assessed value in the AB 1290 Base Year during the remaining term the Agency receives tax increment. Amendment Area: 20% of total tax increment received by the Agency during the entire term the Agency receives tax increment.
Tier 2	Original Area: Beginning in the 11th year after the AB 1290 Base Year, an additional payment equal to 16.8% of the tax increment attributable to assessed value growth above levels in the 10th year. Amendment Area: Beginning in 2008-09, an additional payment equal to 21% of the tax increment attributable to assessed value growth above year 2007-08.

Tier 3	Original Area: no Tier 3 Payments are due since this area will no longer receive tax increment in the year in which this tier is triggered. Amendment Area: Beginning in 2028-29, an additional payment equal to 11.2% of the tax increment attributable to assessed value growth above levels in 2027-28.

The following taxing entities are eligible to receive such payments for the Original Area:

- Reedley Cemetery District
- Sierra Kings Hospital District
- Fresno County Fire District
- Kings River Conservation
- City of Reedley (Tier 1 only)

After payment of the above, Tax Revenues for 2012-13 are estimated at $972,297.

The Agency also has agreements with the Kings Canyon Unified School District, the Fresno County Superintendent of Schools, and the State Center Community College District. Payments under those agreements are subordinate to debt service on the Bonds and have been shown on Table 2 as subordinate.

Tax Revenues and Coverage

Table 3 provides information on Tax Revenues and coverage prior to AB 26. As shown on Table 3, Tax Revenues are projected to provide coverage at 154 percent of debt service in 2012-13. Housing Tax Revenues were projected to provide coverage at 413 percent for 2012-13.

Table 4 reflects the estimated impact of AB 26 on Bond debt service payments. The table shows the actual or estimated tax increment that is available, the obligations that are deducted prior to paying debt service (including administrative fees and pass through payments) and the payment of bond debt service. Under the provisions of AB 26, funds that are not needed to meet enforceable obligations or to pay for administrative costs would normally be redistributed to the other taxing entities. However, the Agency has reserved a portion of the remaining revenues during the period from January to June 2013 period in order to meet the provisions of the Bond Indenture of Trust and to smooth out its cash flows. The bond reserve is shown on Table 4.

The level of coverage is also affected by AB 26. Overall coverage increases to 174 percent from 154 percent without AB 26 for the non housing portion of debt service, since the housing set-aside is now a part of the tax increment available to meet debt service. However, the coverage on the bonds that previously would have been paid from the housing set-aside decreases from 413 percent to 174 percent.

Table 1
Reedley Successor Agency
Reedley Redevelopment Project

TEN MAJOR PROPERTY TAX ASSESSEES FOR 2012-13 (1)

Assessee	Type of Use	Secured	Unsecured	Total Value	%of Total Value (2)	%of Inc Value (2)
1) Ito Packing	Industrial	$9,687,301	$7,215,500	$16,902,801	3.36%	6.75%
2) Gerawan Farming	Industrial	12,715,400	0	12,715,400	2.53%	5.08%
3) Otani Properties	Commercial	12,157,621	0	12,157,621	2.41%	4.86%
4) Meadowbrook Reedley	Residential	9,652,917	0	9,652,917	1.92%	3.86%
5) Maxco Supply	Industrial	8,414,492	0	8,414,492	1.67%	3.36%
6) Reedley Center Inc.	Commercial	7,296,045	0	7,296,045	1.45%	2.91%
7) Reedley Properties	Commercial	6,955,870	0	6,955,870	1.38%	2.78%
8) Ahdi and Ibtisam Nashashibi Trustees	Commercial	5,772,100	0	5,772,100	1.15%	2.31%
9) Walgreen	Commercial	4,628,000	0	4,628,000	0.92%	1.85%
10) Georgia-Pacific Corrugated LLC	Industrial	3,951,964	0	3,951,964	0.78%	1.58%
Total Valuation		**81,231,710**	**7,215,500**	**88,447,210**	**17.57%**	**35.32%**

(1) Based on ownership of locally-assessed secured and unsecured property.
(2) Based on 2012-13 Project Area taxable value of $503,450,155 and incremental value of $250,395,135.

Source: Records of Fresno County

Table 2
Reedley Successor Agency
Reedley Redevelopment Project

ESTIMATE OF TAX INCREMENT REVENUE FOR FISCAL YEAR 2012-13 (1)
AND DEBT SERVICE COVERAGE PRIOR TO AB 26

<u>Local Secured</u>	
Land	$132,911,246
Improvements	355,598,011
Personal Property	13,735,491
Gross Local Secured	502,244,748
Exempt	35,075,842
Net Local Secured	467,168,906
State Assessed	269,599
<u>Unsecured</u>	
Land	0
Improvements	14,730,140
Personal Property	21,479,310
Total Unsecured	36,209,450
Exempt	197,800
Net Unsecured	36,011,650
Total Value	**503,450,155**
Base Year Taxable Value	253,055,020
Incremental Taxable Value	250,395,135
Total Tax Increment Revenue	**2,503,951**
<u>Adjustments to Tax Increment Revenue:</u>	
Property Tax Administration Fees (2)	49,773
Section 33676 Allocations (3)	180,664
<u>Liens on Tax Increment</u>	
Housing Set-Aside (4)	464,657
Senior Negotiated Tax Sharing (5)	798,797
Statutory Tax Sharing Payments (6)	37,764
Tax Revenue	**$972,297**
Subordinate Negotiated Tax Sharing (7)	137,924
Net Tax Increment	**834,373**

(1) Based on taxable values per Fresno County.
(2) Estimated based on 2% of tax increment.
(3) Allocations to the City per former Section 33676 of the CRL.
(4) Based on 20 percent of total tax increment revenue net of Section 33676 Allocations. A portion of debt service on the Bonds is payable from the Housing Set-Aside.
(5) Payments per tax sharing agreements from the Orginal Area that that are senior to debt service.
(6) Based on provisions of AB 1290 for Amendment Area. Original Area AB 1290 payments have been triggered as of 2011-12 but the Original Area values are below the adjusted base year value.
(7) Payments per tax sharing agreements from the Orginal Area that are subordinate to debt service.

Table 3
Reedley Successor Agency
Reedley Redevelopment Project

PROJECTED TAX REVENUES AND DEBT SERVICE COVERAGE - PRIOR TO AB 26
(000's Omitted)

Fiscal Year Ending	Tax (1) Revenues	Series A Annual Debt Service	Series B Annual Debt Service	Total Debt Service	Coverage	Housing Tax (1) Revenue	Series A Annual Debt Service	Series B Annual Debt Service	Total Debt Service	Coverage
2013	$972,297	529,648	102,950	$632,598	154%	464,657	37,880	74,550	112,430	413%
2014	972,297	529,648	101,964	631,612	154%	464,657	37,880	73,836	111,716	416%
2015	972,297	594,776	35,496	630,272	154%	464,657	65,792	25,704	91,496	508%
2016	972,297	629,542	0	629,542	154%	464,657	80,691		80,691	576%
2017	972,297	631,450	0	631,450	154%	464,657	81,509		81,509	570%
2018	972,297	632,626	0	632,626	154%	464,657	82,013		82,013	567%
2019	972,297	629,663	0	629,663	154%	464,657	80,743		80,743	575%
2020	972,297	632,971	0	632,971	154%	464,657	82,161		82,161	566%
2021	972,297	631,947	0	631,947	154%	464,657	81,722		81,722	569%
2022	972,297	630,153	0	630,153	154%	464,657	80,953		80,953	574%
2023	972,297	630,645	0	630,645	154%	464,657	81,164		81,164	572%
2024	972,297	629,956	0	629,956	154%	464,657	80,869		80,869	575%
2025	972,297	631,925	0	631,925	154%	464,657	81,713		81,713	569%
2026	972,297	631,966	0	631,966	154%	464,657	15,516		15,516	2995%
2027	972,297	633,044	0	633,044	154%					
2028	972,297	632,950	0	632,950	154%					
2029	972,297	631,675	0	631,675	154%					
2030	972,297	629,350	0	629,350	154%					
2031	972,297	630,800	0	630,800	154%					
2032	972,297	630,850	0	630,850	154%					
2033	972,297	633,925	0	633,925	153%					
2034	972,297	630,000	0	630,000	154%					
2035	972,297	629,444	0	629,444	154%					
2036	972,297	631,894	0	631,894	154%					
2037	972,297	632,169	0	632,169	154%					
2038	972,297	630,269	0	630,269	154%					
2039	973,595	631,013	0	631,013	154%					
2040	973,595	629,219	0	629,219	155%					
2041	973,595	629,706	0	629,706	155%					
2042	973,595	632,113	0	632,113	154%					
Total	**29,174,095**	**18,695,337**	**240,410**	**18,935,747**		**6,505,203**	**970,606**	**174,090**	**1,144,696**	

(1) Reflects Tax Revenues and Housing Tax Revenues from Table 2.

Table 4
Reedley Successor Agency
Reedley Redevelopment Project

BOND DEBT SERVICE COVERAGE FOR 2011-12 AND 2012-13 UNDER AB 26

	2011-12			**2012-13**		
Category	Actual January-June 2012	Actual July - December 2012	Total	Actual January-June 2013	Estimated July - December 2013	Total
Tax Increment	$1,218,374	1,164,951	2,383,325	1,171,633	1,151,654	2,323,287
Supplemental / Other Taxes	0	0	0	0	0	0
Total Tax Increment / Trust Fund (1)	1,218,374	1,164,951	2,383,325	1,171,633	1,151,654	2,323,287
Obligations						
Property Tax Administration Fees (2)	0	2,578	2,578	3,270	46,503	49,773
Tax Sharing Payments (3)	487,174	486,386	973,560	477,544	496,940	974,484
Tax Revenues for Debt Service	**$731,200**	**$675,987**	**$1,407,187**	**$690,819**	**$608,211**	**$1,299,030**
Series A Bond Debt Service	283,764	283,764	567,528	283,764	283,764	567,528
Series B Bond Debt Service	7,900	172,900	180,800	4,600	174,600	179,200
Total Debt Service (4)	**291,664**	**456,664**	**748,328**	**288,364**	**458,364**	**746,728**
Remaining Revenue	**439,536**	**219,323**	**658,859**	**402,455**	**149,847**	**552,302**
Reserve for Bond Debt Service (5)	0	0	0	(231,000)	231,000	0
Net Remaining Revenue	439,536	219,323	658,859	171,455	380,847	552,302
Coverage (6)	**251%**	**308%**	**188%**	**240%**	**220%**	**174%**

(1) Reflects actual receipts based on the records of the Agency for the period January to December 2012 and January to June 2013. July to December 2013 numbers are estimates. Amounts shown are net of Section 33676 allocations.
(2) Actual amount for 2011-12 and estimated amount for 2012-13 at 2 percent of tax increment.
(3) Payments due under individual tax sharing agreements, including those that are subordinate.
(4) Bond year debt service for the Bonds.
(5) Amount of remaining revenue that was set-aside as a reserve for the fall debt service payment.
(6) Coverage for the January to June period calculated without deducting the Reserve for Bond Debt Service. Coverage for the July to December period calculated inclusive of Reserve for Bond Debt Service.