

# THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

A COMPONENT UNIT OF THE CITY OF SAN JOSE, CALIFORNIA



## Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2009



*Redevelopment Agency*

[www.sjredevelopment.org](http://www.sjredevelopment.org)

**Photos:** Included in this CAFR are photos of some notable redevelopment projects of the Agency. The cover photo is San Jose Downtown at Night.

# THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

A COMPONENT UNIT OF THE CITY OF SAN JOSE, CALIFORNIA



The Market by Safeway



San Jose BioCenter in Edenvale

## Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2009

PREPARED BY:

Harry S. Mavrogenes  
Executive Director/Chief Administrative Officer

David C. Baum  
Director of Finance/Chief Financial Officer



*Redevelopment Agency of the City of San Jose*

(A Component Unit of the City of San José, California)

## **Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2009**

### **Prepared by:**

Harry S. Mavrogenes  
Executive Director/  
Chief Administrative Officer

Janet C. Kern  
Deputy Executive Director

David C. Baum  
Director of Finance/Chief Financial Officer

### **Finance Division**

#### **Coordination and Control**

Abraham M. Andrade, Jr.  
Assistant Director of Finance

Alex R. Guiang, CGFM  
Principal Accountant

#### **Preparation and Assistance**

Lupe M. Aguinaga  
Fiscal Officer

Sandy L. Shayesteh  
Contract Manager

Justina C. Hsu  
Budget Manager

Francisco B. Fuentes  
Accountant

Dat K. Nguyen, CGFM  
Financial Analyst

Sydney S. Chui  
Financial Analyst

Holly H. Le  
Payroll Specialist

Margarita Z. Soria  
Fiscal Support Technician

Paul D. Asper  
Graphic Designer

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Fiscal Year Ended June 30, 2009

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**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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eBay - North San Jose



Tech Workers at the Northpark  
Mixed-Use Project in North San Jose

## INTRODUCTORY SECTION





November 2, 2009

To the Honorable Mayor, Members of the Board of Directors of the  
Redevelopment Agency of the City of San José and the  
Citizens of the City of San José:

State law requires that the Redevelopment Agency of the City of San José (the Agency) publish a complete set of financial statements presented in conformity with the accounting principles generally accepted in the United States of America (GAAP) applied to governmental entities. The financial statements are to be audited by a certified public accountant in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Pursuant to that requirement, we hereby issue this Comprehensive Annual Financial Report (CAFR) of the Agency for the fiscal year ending June 30, 2009.

This is the 9<sup>th</sup> consecutive year that the Agency has produced a CAFR, which is prepared in conformance with the Governmental Accounting Standards Board (GASB) Statement 34 reporting model. This report consists of management's representations concerning the finances of the Agency. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, the management of the Agency has established a comprehensive internal control framework that is designed both to protect the Agency's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Agency's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Agency's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Agency's financial statements have been audited by Macias Gini & O'Connell LLP, CPAs, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent

auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Agency's financial statements for its governmental activities and each major fund for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report, which can be found on pages 13 and 14.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found on pages 15 to 29 following the report of the independent auditor.

To assist in the clarity and usefulness of the Statistical Section of the CAFR, additional schedules and information are included, as required by GAAP, by presenting financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. You can find these schedules beginning on page 80.

## **PROFILE OF THE AGENCY**

The Agency was established in 1956 under California State Law by the San José City Council to improve the quality of life for all who live, work, and play in San José by creating jobs, developing affordable housing, strengthening neighborhoods, and building public facilities. The Agency is a separate legal entity from the City of San José (the City). In 1975 the San José City Council declared itself the Agency Board of Directors (Board), replacing a separate board. The City Council consists of a Mayor and ten other Council members. The Mayor is elected at-large for a four-year term. Council Members are elected by district, also for a four-year term. Effective January 1, 1991, the Council members were limited to two consecutive terms, consistent with the term limit for the Mayor. The Agency's Executive Director/Chief Administrative Officer is responsible for the operations of the Agency and reports directly to the Agency Board.

As an agency of the State of California, it performs all activities authorized under the California Redevelopment Law. That law clarifies an important difference between the Agency and the City in the use of the Agency's funds. While City revenues may be used for the full range of city services, redevelopment agency funds generally must be spent only on programs and projects that benefit the redevelopment areas, not for City operating costs such as police or fire protection. As of June 30, 2009, the Agency has twenty-one (21) ongoing redevelopment project areas (see geographic locator map on page 12), which are grouped into four categories: Downtown, Neighborhood Business Districts/Clusters, Industrial, and Strong Neighborhoods Initiative. The Agency is one of the largest redevelopment agencies in the State of California in terms of both capital budget and tax increment revenue generation.

The California Redevelopment Law also provides tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment

area is adopted, the agency can only receive tax increment to the extent that it can show on an annual basis that it has incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, agency liabilities normally exceed assets, thus resulting in a deficit in the statement of net assets. Therefore, the Agency traditionally carries a deficit to collect tax increment revenues.

The Agency used the criteria in conformity with the standards prescribed by GASB in determining that there are no component units for which the Agency is responsible for inclusion in its financial statements. Under GASB Statement No. 14, *The Financial Reporting Entity*, the Agency is considered as a component unit of the City and is blended in the City's basic financial statements.

The annual budget serves as the foundation for the Agency's financial planning and control. Prior to June 30, the annual adopted capital budget is presented to the City Council/Agency's Board. At the time the budget is approved, the Board also adopts the annual appropriation resolution and annual revenue resolution, which incorporates the expected revenues and expenditures, as they are delineated in the budget. The annual capital budget is then finalized subject to amendments at the middle of the year after receiving the final tax roll from the County of Santa Clara. The level of budgetary control, at which expenditures cannot legally exceed the budgeted amount, is at the appropriation level. However, management can transfer budgeted amounts between activities included in each appropriation without the approval of the Agency's Board.

The Agency also maintains an encumbrance accounting system as one method of maintaining budgetary control. Year-end encumbrances are carried forward and become part of the following year's budget. Appropriations that are not encumbered lapse at the end of the fiscal year, but they are rebudgeted in the subsequent year. Budget-to-actual comparisons (using the budgetary basis of accounting) are provided in this report for all governmental funds for which the appropriated annual budget has been adopted. For the general fund and special revenue fund, the comparisons are presented under Other Required Supplementary Information on pages 72 to 75. For the debt service funds and capital projects fund, the comparisons are presented under Other Supplementary Information subsection of this report on pages 76 to 79.

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Agency operates.

**Local economy.** The City of San José has the largest concentration of technology in the world with over 6,300 technology companies employing more than 300,000 people (<http://www.sjredevelopment.org/industrial.htm>). According to the California Employment Development Department, the City of San Jose’s total labor force as of June 30, 2009 rose to 470,500 from 458,500 in the same period of last year. However, the total employed workers decreased by 31,500 when the unemployment rate jumped from 6.6% to 13.1% as of June 30, 2009.

The Agency is less affected with the downturn of the economy because 85% of properties in the tax generating areas are commercial and industrial properties, where the market was not severely impacted. In the fiscal year ending June 30, 2009, there was an increase of 8.1% in assessed values translating to a 9.4% growth in tax increment.

**Long-term financial planning.** The County reported a 2.7% growth in assessed valuation of properties in the tax generating project areas for fiscal year 2009-10, with new construction as a main factor for the increase. The tax increment revenue forecast was 4.7% for fiscal year 2009-10.

During the fiscal year, the City Council adopted various ordinances that would amend the Merged Area Redevelopment Project to increase the tax increment revenue cap from \$7.6 billion to \$15 billion. In the next six years, annual tax increment growth in the tax generating areas of the Merged Area Project is projected to be in the range of 0% - 8.2%, as shown below, translating to an estimated \$1.296 billion in tax increment revenues and approximately \$388 million in new bond proceeds over the next six-year period.

Fiscal Year	Tax Increment	
	Growth Rate	Amount (In Millions)
2009-10	4.7%	\$ 200
2010-11	0.0%	200
2011-12	0.1%	200
2012-13	7.0%	215
2013-14	8.2%	232
2014-15	7.2%	249
Total		<u>\$ 1,296</u>

With the increase of 2.7% assessed valuation growth in the new fiscal year, the Agency should be able to issue approximately \$30 million bonds, which is less than the \$99 million originally anticipated. Based on this new revenue forecast, the Agency staff has substantially revised its 2009-2010 Budget which was distributed to the Agency Board on October 26, 2009. The proposed revised Budget is structured to enable the Agency to continue its mission to eliminate blight through sustaining and increasing jobs in San José, enhancing economic vitality, investing in public facilities and infrastructure, strengthening neighborhoods and providing quality affordable housing.

The Agency proposes to implement its redevelopment programs by continuing to provide these four core service areas, namely:

1. Economic Development
2. Build Public Facilities
3. Develop and Preserve Housing
4. Strengthen Neighborhoods

These core services constitute the strategic goals that direct the Agency's redevelopment project areas and budgets. The *fiscal year 2009-2010 Adopted Capital Budget* was adopted by the City Council (Agency Board) on June 23, 2009 and is planned to be amended in December 2009. The proposed amendments, which were released on October 26, 2009, to the *Adopted Capital Budget* are included in the *Proposed Revised FY 2009-10 Capital and Operating Budget* and *Proposed Revised Six-Year 2010-2015 Capital Improvement Program Budget*, with a total operating budget of \$20 million and capital budget of \$101 million for fiscal year 2009-2010. The \$101 million capital budget is proposed to be allocated as follows: \$56 million to economic development, \$21 million to build public facilities, \$3 million to develop and preserve housing, \$4 million to strengthen neighborhoods, \$17 million for strong neighborhoods initiative. Because of the effects of lower tax increment revenue projections and the downturn of the economy, the proposed budget amendments incorporate the Agency's laying off of almost a quarter of its staff in the first quarter of the new fiscal year and put many capital projects on hold.

The Agency is also faced with a financial challenge by the State's AB 26x 4, signed into law on July 28, 2009, which requires redevelopment agencies statewide to transfer \$2.05 billion for the next two fiscal years beginning 2009-2010 to fund the State's Supplemental Educational Revenue Augmentation Fund (SERAF). As discussed further in Note III.E – Subsequent Event, the Agency's total share to the SERAF aggregated to \$75 million.

**Major current initiatives.** The Agency's major redevelopment projects during fiscal year 2008-2009 included funding of the Strong Neighborhoods Initiative (SNI) of \$18.4 million, Neighborhood Business Districts (NBD) of \$5.4 million, \$1.3 million to build affordable housing, \$15.2 million to build public facilities, and \$30.2 million to create jobs and expand businesses.

Strong Neighborhoods Initiative is composed of a single Redevelopment Project Area consisting of twenty-one neighborhoods, which are located throughout the City of San José (<http://www.strongneighborhoods.org/>). Redevelopment projects include preservation of existing affordable housing stock, making neighborhoods cleaner, creating safer and more attractive residential streets, supporting businesses for vital business districts, and constructing parks and neighborhood centers.

Neighborhood Business Districts consist of projects that include a façade improvement program, shopping center improvement program, streetscape and park construction program,

Neighborhood Business Association activities and Neighborhood Business District Development program, neighborhood retail development program, and childcare program.

The notable ongoing redevelopment projects in FY 2008-2009 are The 88 Tower (condominium, retail and public parking), The 360 Residences, Rincon North Vision San José, Convention Center Expansion, Civic Auditorium, North San Pedro Housing, and St. James Park.

**Debt and net assets (deficit) management.** At year-end, the Agency had a number of debt issues outstanding. Of the total outstanding debt of \$2.478 billion, \$1.802 billion is tax allocation bonds (TABs), \$423 million is subordinated debt, and \$253 million is housing tax allocation bonds secured by the 20% housing funds.

The TABs and subordinated debt issues will be repaid from future collections of tax increment and other revenues. Tax increment revenues (net of 20% housing set-aside and senior pass-through obligations) expected to be received by the Agency through 2041 totals \$3.43 billion, assuming no growth. Based on these revenue projections, the Agency should receive enough money to cover its total debt obligation and eliminate the net deficit of \$1.862 billion as of June 30, 2009 (see Statement of Net Assets on page 30).

**Risk management.** The Agency carries commercial and general liability property insurance policies. In addition, third-party coverage is maintained for worker's compensation claims. The insurance premiums are funded as part of the operating costs in the general fund and insurance claims are recognized in the capital projects fund. In addition, the Agency has instituted a safety program that minimizes losses and the carrying cost of worker's compensation coverage.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (page 8) to the Agency for its Fiscal Year 2007-2008 CAFR. The Certificate of Achievement for Excellence in Financial Reporting Award is the highest form of recognition in financial reporting for state and local governments, including local government agencies. This is the 8<sup>th</sup> consecutive year the Agency has received this prestigious award. In order to be awarded a Certificate of Achievement, a CAFR should give a clear and thorough view of the government's finances. It should enhance the reader's understanding of the information required by GAAP for fair presentation of the financial statements, be efficiently organized, and adhere to certain accounting terminology and GFOA formatting conventions. The report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our CAFR for this fiscal year ended June 30, 2009, continues to meet the Certificate of Achievement for



Excellence in Financial Reporting Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Agency also received the GFOA's Distinguished Budget Presentation Award (see page 9) for the first time for its annual budget document for the fiscal year ended June 30, 2008. In order to qualify for the Distinguished Budget Presentation Award, the government unit must publish a budget document that meets the program criteria as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report reflects the responsibility of the Agency's management to maintain the highest standards of financial reporting and to promote open accountability. This project could not have been possible without the efficient and dedicated service of the Finance staff, a number of them spent many long days and weekends to produce this document. We would like to express our sincere appreciation to them and other Agency staff (*list at the back of title page*) who assisted in and contributed to the preparation of this report. We also express our appreciation to the staff of Macias Gini & O'Connell LLP, CPAs for their technical expertise and guidance. Due credit should particularly be given to the Mayor and the City Council (Agency Board) for their progressive and responsible leadership in the fiscal affairs of the Agency.

Respectfully submitted,



Harry S. Mayrogenes  
Executive Director/  
Chief Administrative Officer



David C. Baum  
Director of Finance/  
Chief Financial Officer

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

The Redevelopment Agency  
of the City of San Jose  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. R. M.", positioned above the title "President".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emery", positioned above the title "Executive Director".

Executive Director





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**The Redevelopment Agency of the City of San Jose  
California**

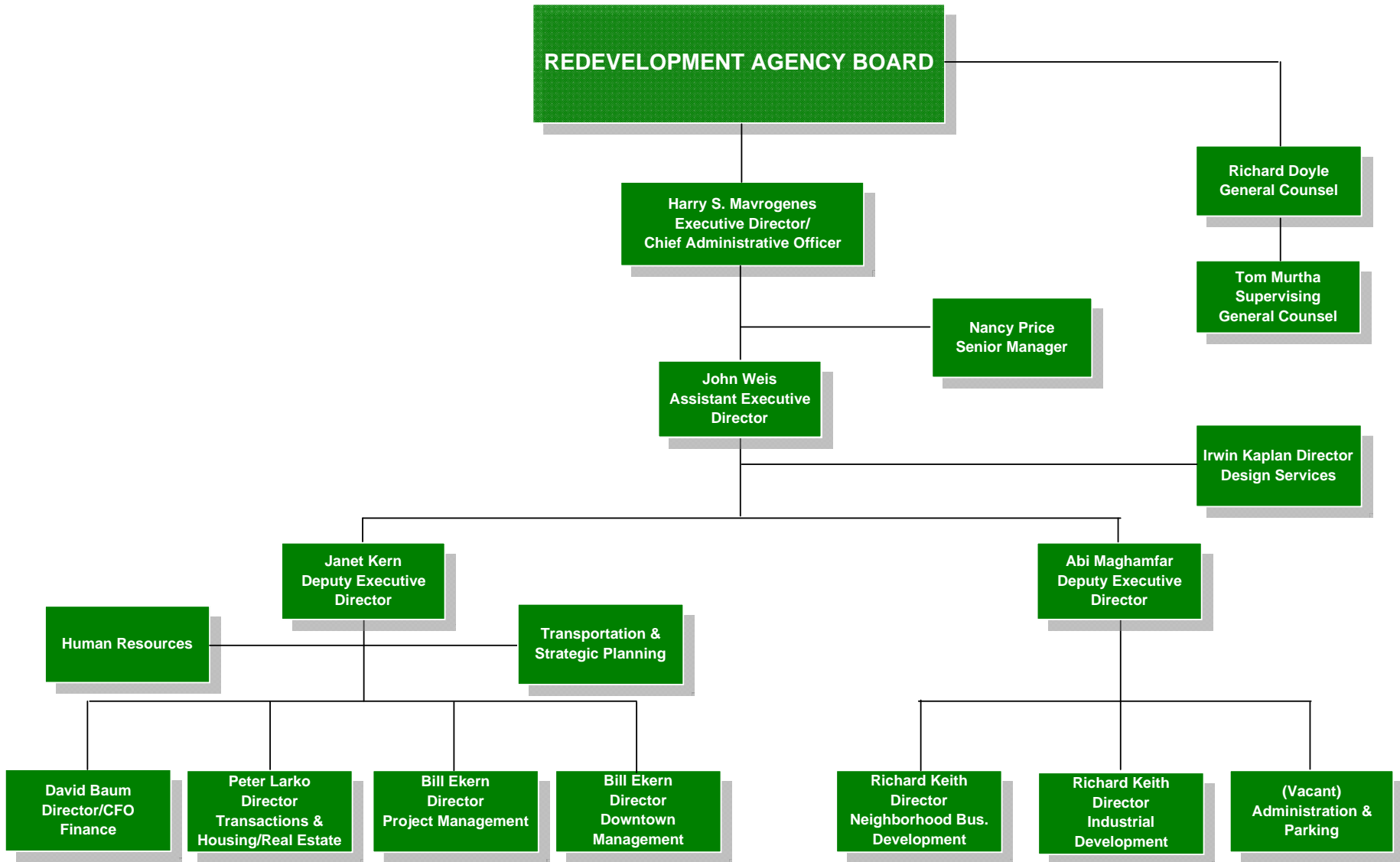
For the Fiscal Year Beginning

**July 1, 2008**

President

Executive Director

# THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE ORGANIZATIONAL CHART



**The  
Redevelopment  
Agency of the  
City of San Jose**

**Board of  
Directors**



Chairman  
Mayor Chuck Reed  
Term Expires 12/31/10



Vice Chairwoman  
Vice Mayor Judy Chirco  
District 9  
Term Expires 12/31/10



Pete Constant  
District 1  
Term Expires 12/31/10



Ash Kalra  
District 2  
Term Expires 12/31/12



Sam Liccardo  
District 3  
Term Expires 12/31/10



Kansen Chu  
District 4  
Term Expires 12/31/12



Nora Campos  
District 5  
Term Expires 12/31/10



Pierluigi Oliverio  
District 6  
Term Expires 12/31/12



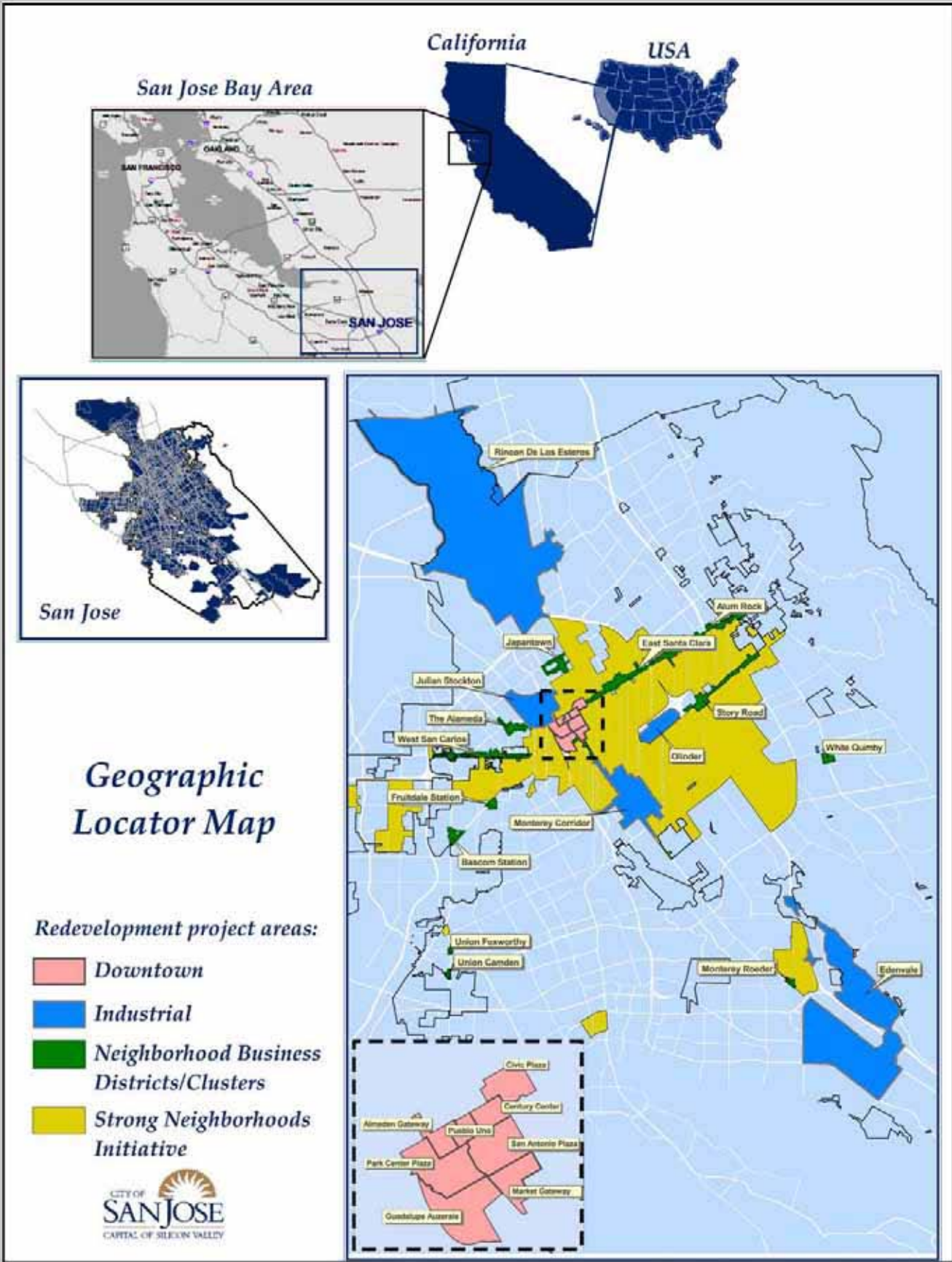
Madison Nguyen  
District 7  
Term Expires 12/31/10



Rose Herrera  
District 8  
Term Expires 12/31/12



Nancy Pyle  
District 10  
Term Expires 12/31/12







Central Place Garage below  
The 88 Condos



The 88 high-Rise Condos

## AUDITOR'S REPORT





**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

WALNUT CREEK  
2121 N. California Blvd., Suite 750  
Walnut Creek, CA 94596  
925.274.0190

SACRAMENTO

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

The Board of Directors  
Redevelopment Agency of the  
City of San José, California

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of San José (Agency), a component unit of the City of San José, California, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 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 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 respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2009, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note III.A. to the financial statements, the Agency adopted the provisions of Governmental Accounting Standards Boards (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

As discussed in Note III.E. to the financial statements, on July 24, 2009, the State passed legislation that will require payments totaling \$75.0 million in tax increment to the Supplemental Educational Revenue Augmentation Fund of Santa Clara County on May 10, 2010 and May 20, 2011. A class-action lawsuit has been filed that includes a challenge to the constitutionality of this revenue shift. While the ultimate outcome of the lawsuit cannot presently be determined, if unsuccessful, the payments required under the State legislation are material and will require significant modifications to the Agency's operations and initiatives.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009, 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 audit.

The management's discussion and analysis and budgetary comparison information for the general fund and special revenue fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

  
Certified Public Accountants

Walnut Creek, California  
November 2, 2009





Cisco Systems - North San Jose



Mayfair Community Center

# MANAGEMENT'S DISCUSSION AND ANALYSIS



# **REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

## **Management's Discussion and Analysis June 30, 2009**

As management of the Redevelopment Agency of the City of San José (the Agency), we offer readers of the Agency's basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found beginning on page 1 of this CAFR report.

### **FINANCIAL HIGHLIGHTS**

Liabilities of the Agency exceeded its assets in governmental activities at the close of fiscal year 2009 by \$1,862,146,000 (net assets/deficit). Of this amount, \$22,218,000 represents Invested in Capital Assets – Net of Related Debt and \$87,136,000 represents Resources Restricted for Debt Service payment. The remaining negative amount of \$1,971,500,000 represents the accumulated unrestricted deficit at the close of fiscal year 2009.

Total revenues in the governmental activities increased by a net amount of \$8,172,000 or 3% as compared from last year. The net increase is attributed mainly to the \$17,404,000 or 9% increase in tax increment revenue.

Total expenses in governmental activities were \$92,041,000 (change in net assets) more than the \$251,929,000 total revenues generated during the current year. The change in net assets has decreased by \$57,134,000, compared to last year's decrease of \$34,907,000.

Total expenses in governmental activities increased by a net amount of \$65,306,000 or by 23%. The increase in expenses is attributable to the \$60,292,000 or 41% increase in project expenses.

At the close of the current fiscal year, the Agency's governmental funds reported the combined ending fund balances of \$228,742,000, an increase of \$6,670,000 in comparison to prior year. \$48,377,000 or 21% (unreserved fund balance) is available for redevelopment projects at the discretion of the Agency Board, but consistent with various restrictions on the use of the funds.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

# REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

## Management's Discussion and Analysis (continued) June 30, 2009

### Government-wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* reports all financial and capital resources of the Agency. The Agency presents the statement in a format that displays assets less liabilities equal net assets (deficit). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes and earned, but unused vacation and sick leave.

The *governmental activities* of the Agency include general government, community development, housing, and debt service. The government-wide financial statements can be found on pages 30 and 31 of this report.

### Fund Financial Statements

*Fund Financial Statements* are designed to report information about groupings (*funds*) of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses *fund accounting* to ensure and demonstrate finance-related legal compliance. All *funds* of the Agency are categorized as *governmental funds*.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the *government-wide financial statements*. However, unlike the *government-wide financial statements*, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Agency's redevelopment programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental*

# REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

## Management's Discussion and Analysis (continued) June 30, 2009

*funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may have a better understanding of the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains several individual governmental funds created according to their purpose. The individual fund information is presented separately in the governmental fund balance sheet (page 32) and in the governmental fund statement of revenues, expenditures, and changes in fund balances (page 34) for all the Agency's governmental funds.

### **Notes to the Basic Financial Statements**

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 to 71 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Agency's budgetary comparison for certain governmental funds – general fund and special revenue fund (pages 72 to 75).

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, it is also an important determinant of its ability to finance current and future redevelopment projects.

At the close of fiscal year 2009, the Agency has a net deficit of \$1,862,146,000. Of this amount, \$22,218,000 is Invested in Capital Assets-Net of Related Debt and \$87,136,000 is Restricted for Debt Service payment. The remaining negative balance of \$1,971,500,000 represents a deficit, which will be eliminated from collections of future tax increment and other revenues. The largest portion of the Agency's deficit is caused by the outstanding long-term obligations of \$2,486,013,000. Traditionally, the Agency carries a deficit to collect tax increment as mentioned earlier in the letter of transmittal. This is primarily due to the nature of tax increment financing method allowed under California law whereby a

# **REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

## **Management's Discussion and Analysis (continued) June 30, 2009**

redevelopment agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues.

The Agency uses debt proceeds to finance its redevelopment projects, mainly public projects, including public parking, street improvements, park improvements, transportation improvements, cultural facilities, and community centers. Once redevelopment projects that are public facilities are completed by the Agency, the responsibilities for their continued maintenance and operations are transferred to the City of San José (City) including the capitalized redevelopment project costs. Listed below are some notable public facilities that have been transferred or will be transferred to the City:

1. San José McEnery Convention Center
2. San José McEnery Convention Center - Expansion
3. Children's Discovery Museum
4. San José Museum of Art
5. HP Pavilion at San José (Arena)
6. Tech Museum of Innovation
7. Mexican Heritage Plaza and Gardens
8. Guadalupe River Park and Gardens
9. Dr. Martin Luther King Jr. Library
10. Washington United Youth Center and Biblioteca Latinoamericana
11. San José Repertory Theater
12. 4<sup>th</sup> Street Parking Garage
13. California Theatre
14. Bellevue Park

In addition, completed projects with private developers are also transferred to the developers in accordance with the Disposition and Development Agreements. Although completed public facilities and Joint Agency-Private Partnership projects are transferred to the City of San José and private developers, respectively, the related debt remains with the Agency.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)  
June 30, 2009**

Shown below is a comparative schedule that summarizes the Agency's net assets (deficit):

Agency's Net Assets (Deficit) Governmental Activities As of June 30, 2009 and 2008 (In thousands)		
	2009	2008
Current and other assets	\$ 358,455	\$ 337,492
Capital assets, net	355,290	350,218
 Total assets	 713,745	 687,710
 Long-term liabilities	 2,486,013	 2,385,039
Other liabilities	89,878	72,775
 Total liabilities	 2,575,891	 2,457,814
 Net assets:		
Invested in capital assets, net of related debt	22,218	23,394
Restricted net assets	87,136	49,005
 Unrestricted net assets (deficit)	 (1,971,500)	 (1,842,503)
 Total net assets (deficit)	 \$ (1,862,146)	 \$ (1,770,104)

The Agency uses its capital assets of \$355,290,000 to eliminate blight in the San Jose redevelopment project areas (see pages 50 to 52 for additional information).

Long-term bonds and notes are mainly represented by tax allocation bonds, revenue bonds, and housing set-aside bonds issued to finance redevelopment projects. The change from last year's long-term obligations represents a net increase of \$112,170,000 mainly due to the issuance of 2008 Merged Area Redevelopment Project Tax Allocation Bonds Series A and Series B for \$37,150,000 and \$80,145,000, respectively, and a \$50,000,000 drawdown of the Housing Line of Credit.

Net Assets Restricted for Debt Service increased by \$38,131,000 due mainly to 2008 TAB Bond's reserve and capitalized interest of \$29,539,000.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)  
June 30, 2009**

**Governmental activities.** Overall the Agency's financial position decreased from the prior year. Under the governmental activities, the Agency's net deficit has increased by \$92,041,000 during the year. The increase accounts for 5 percent of the accumulated deficit at June 30, 2009.

Key elements of the changes in net assets of the governmental activities are presented below:

Agency's Changes in Net Assets (Deficit)  
For the Fiscal Years Ended June 30, 2009 and 2008  
(In Thousands)

	2009	2008
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 32,019	\$ 32,950
Capital Grants and contributions	6,384	4,306
General revenues:		
Tax increment	202,346	184,942
Unrestricted investment earnings	5,134	9,536
Others	6,046	12,023
Total revenues	251,929	243,757
Expenses:		
General government	7,677	7,002
Community development	135,237	112,532
Housing	90,469	50,843
Debt service	110,587	108,287
Total expenses	343,970	278,664
Change in net assets	(92,041)	(34,907)
Net assets (deficit) - beginning of year	(1,770,105)	(1,735,197)
Net assets (deficit) - end of year	\$ (1,862,146)	\$ (1,770,104)



**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)  
June 30, 2009**

Operating grants and contributions under program revenues, which represent 13% of the total revenues, decreased by \$931,000 or 3% compared to FY 2007-2008. This is due to a lower debt service required contribution from the City's Housing Department during the year, resulting from lower interest rates on variable housing bonds.

Capital grants and contributions increased by net amount of \$2,078,000 or 48% as compared to last year. This is due to the increased participation and cost sharing of the City in the Agency's capital projects such as the Edenvale Community Center (\$5,307,000), and the transfer of Small Business Loan Program (\$903,000) from the City.

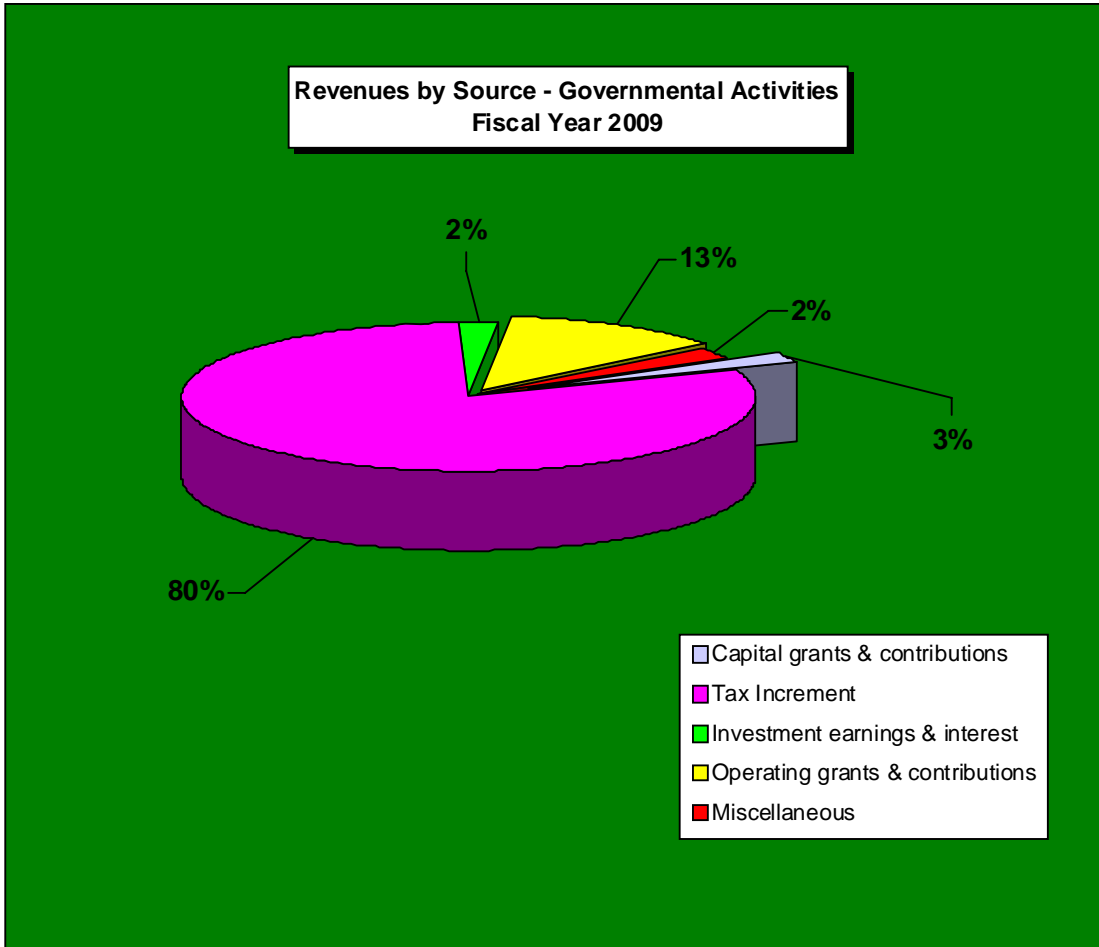
Tax increment, which represents approximately 80% of total revenues, increased from last year by \$17,404,000 or approximately 9%. The increase is mainly due to the changes of ownerships of numerous commercial and industrial properties, which were assessed at higher market values. The commercial and industrial properties represent around 83% of tax generating properties in the redevelopment project areas.

Unrestricted investment earnings decreased by \$4,402,000 or 46% from last year due to lower market yield on investments. The market yield decline can be compared to the downward yield of the Federal Funds rate of 5.25% in June 2007 to 0.18% in June 2009.

Other revenues which include developers contribution, rent, parking and miscellaneous decreased by \$5,978,000 or 50% from last year. The decrease was mainly due to \$4,991,000 received in fiscal year 2007-08 from Fairmont Hotel for the Agency's share in the hotel's loan refinancing in accordance with the Disposition and Development Agreement. No such transaction occurred during the current fiscal year.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)  
June 30, 2009**



Community Development expenses, representing costs incurred on public and private capital project activities/programs, of \$135,237,000, which represent approximately 39% of Agency's total governmental expenses, increased by a net amount of \$22,705,000 or 20% from last year. The increase was mainly due to the costs (\$32,981,000) incurred on private development projects that were charged as project expenses during the year and not capitalized as Capital Assets. The Agency capitalizes only those capital project expenses associated to public projects.

Housing expenses of \$90,469,000, which represent approximately 26% of Agency's total governmental expenses, increased by a net \$39,626,000 or 78% from last year. The increase was due to the \$50,000,000 drawdown of the Housing Line of Credit, and the

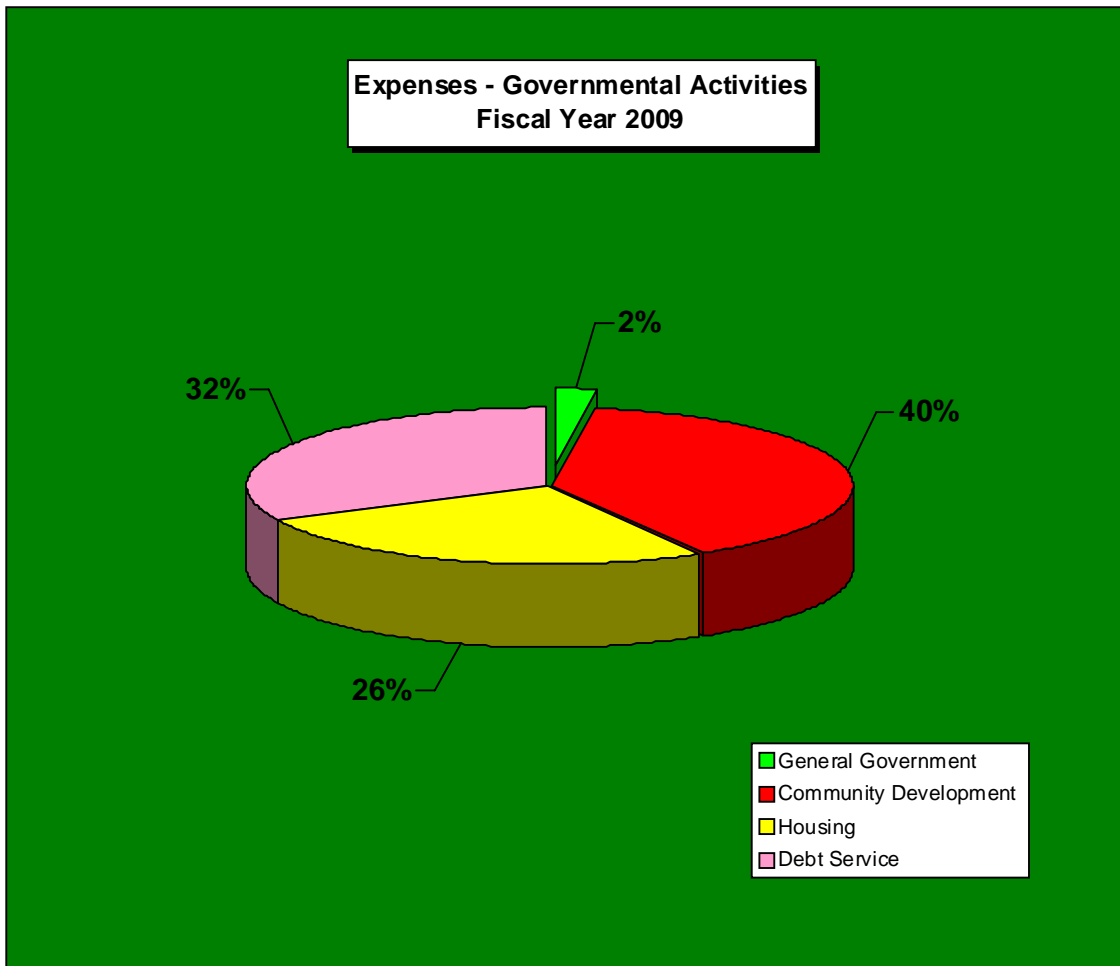
**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)  
June 30, 2009**

\$3,481,000 increase in 20% housing set-aside that was transferred to City Housing Department for low-moderate income housing program.

Debt Service expenses which represent 32% of the total governmental expenses, increased by \$2,300,000 or 2% due to additional interest incurred on the 2008 Tax Allocation Bonds and Housing Line of Credit.

Total General Government expenses have a net increase of \$675,000 or 10% from last year. The change represents an increase in personnel expenses of \$655,000 and non-personnel expenses of \$20,000, due to the increase in the cost of services directly related to redevelopment functions/activities.



# REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

## Management's Discussion and Analysis (continued) June 30, 2009

### FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

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

**Governmental funds.** The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Agency's financial requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Individual fund information of governmental funds reported by the Agency includes general fund, special revenue fund, housing debt service fund, merged debt service fund, and capital projects fund, which are all considered major funds.

At the end of the current fiscal year, the Agency's governmental funds reported *combined fund balances* of \$228,742,000, an increase of \$6,670,000 in comparison with prior fiscal year. Of this total amount, \$48,377,000 constitutes *unreserved fund balance*, which is available for redevelopment spending at the discretion of the Agency Board. The remainder of the fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$130,179,000), 2) to reflect the amount of assets that are long-term in nature and thus, do not represent available spendable resources (\$4,795,000), 3) to pay for low and moderate-income housing projects (\$415,000), and 4) to liquidate contractual commitments of the period (\$44,976,000).

**General fund.** The Agency's general fund is used to account for the general and administrative expenditures. At the end of this fiscal year, the *unreserved fund balance* of the general fund was \$387,000 while total fund balance was \$1,038,000. Fund transfer from the capital projects fund (\$500,000) to the general fund was made during the current year to cover the general and administrative expenditures.

**Special revenue fund.** The special revenue fund is used to account for the portion of tax increment revenue designated for low and moderate-income housing. As required by the California Community Redevelopment Law, the Agency allocated 20 percent (\$40,469,000) of the tax increment received during the year for low and moderate-income housing projects. No fund balance remains at the end of the current fiscal year as all the accumulated resources were transferred to the City for the low-moderate income housing program.

# REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

## Management's Discussion and Analysis (continued) June 30, 2009

**Housing Debt Service Fund.** The housing debt service fund (20% Housing Set-Aside) has a fund balance of \$415,000 at the end of the current fiscal year. The fund balance in the Agency's debt service funds - housing decreased by \$2,419,000 in the current year. This is as a result of total revenues and other fund financing sources of \$68,082,000 being lower than the aggregate expenditures and other fund financing uses of \$70,501,000.

**Merged Debt Service Fund.** The merged debt service fund has a fund balance of \$152,984,000 at the end of the current fiscal year. The fund balance in the Agency's debt service funds - merged has a net increase of \$62,897,000 in the current year. This change is the results of the \$22,805,000 unreserved amount from the 2008 Tax Allocation Bond proceeds and \$30,546,000 transferred in from capital projects for the next debt service payment.

**Capital Projects Fund.** The fund balance in the Agency's capital projects fund had a net decrease of \$47,726,000 from last fiscal year. This net change is attributable to lower bond proceeds revenue received during the year. In the current the year, the 2008 TAB proceeds reported in the capital projects fund amounted to only \$61,356,000 while \$200,000,000 was reported last year from the 2007 TAB.

Total capital outlay expenditures of \$98,472,000, which represents approximately 65% of the total expenditures of the Agency's capital projects fund, decreased by \$20,764,000 or approximately 17% when compared to last year's activity. The decline is primarily the result of lower delegated money paid to the County of Santa Clara due to a smaller face amount of 2008 TAB issued during the year.

During the year, land costing \$5,642,000 was sold to Adobe Systems, Inc. with a selling price of \$6,771,000. Another parcel of land with a cost of \$4,657,000 was sold to Imwalle Properties, LLC for \$1,594,000 to develop the property for retail business in accordance with the Disposition and Development Agreement.

### General Fund Budgetary Highlights

As stated earlier, the General Fund only accounts for the Agency's general and administrative expenditures. During the year, a change to the general fund's original budget was approved by the Board, as follows:

- Increase in personnel services by \$21,000 or 0.5%

The increase in the original budget for personnel services was due to the increase in salary step and equity adjustments, and payroll taxes.

# **REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

## **Management's Discussion and Analysis (continued) June 30, 2009**

The amended budgetary expenditures (\$8,324,000) were more than the actual budgetary expenditures (\$7,790,000) by \$535,000. This was mainly a result of savings from unfilled positions, suspension of staff training and education, and reducing of professional contract services.

### **Capital Assets**

#### **Accumulated Redevelopment Project Costs**

The Agency's investment in properties for redevelopment projects for its governmental activities decreased by \$1,143,000 or 0.76%. Of the net costs of \$149,725,000, 91% represents land (\$136,459,000) and 6% represents construction in progress (\$8,299,000) and 3% represents building (\$4,967,000).

Major activities during the current fiscal year included the following:

- Acquisition of land for future redevelopment projects with a total cost of \$3.3 million.
- Construction in progress of \$6.0 million.
- Land held for redevelopment that was transferred and sold to developers for \$10.3 million.

At June 30, 2009, the Agency had contractual commitments of approximately \$22.9 million to be capitalized for its accumulated redevelopment project costs.

#### **Other Capital Assets**

For government-wide financial statement presentation, depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year using the straight-line method.

The Agency's capital assets consist of the following:

- 1) Parcels of land with total cost of \$23,403,000,
- 2) Five buildings with aggregated net book value of \$156,114,000,
- 3) Improvements to four public buildings and facilities with a total net book value of \$19,208,000 ,
- 4) Parking garage located beneath the Fairmont Plaza Hotel in downtown San José with net book value of \$4,625,000,

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)**

**June 30, 2009**

- 5) Leasehold improvements on retail sites at the Fairmont Plaza Hotel – Annex with a net book value of \$1,557,000, and
- 6) Equipment with a net book value of \$658,000.

Additional information about the Agency's capital assets can be found on pages 50 - 52 of notes to the financial statements.

**Debt Administration**

At June 30, 2009, the Agency had long-term bonds and notes outstanding aggregating to \$2,478,117,000. Of this amount, \$2,055,505,000 represents senior debt backed by tax increment revenues. The remainder of the Agency's debt represents other bonds and notes secured by tax increment and other revenues such as developer payments, lease payment revenue, interest earnings and other sources. Breakdown of the long-term debt is as follows (in thousands):

Senior Debt:

Merged Area Tax Allocation Bonds (TABs)	\$ 1,802,235
Housing Set-Aside bonds	253,270
Sub total – Senior Debt	<u>2,055,505</u>

Subordinated Debt:

Merged Area Revenue Bonds	108,200
Convention Center Refunding Bonds	153,310
4th/San Fernando Parking Revenue Bonds	
Pledge Obligation	38,255
CSCDA ERAF Loans	23,980
Housing Line of Credit	50,000
HUD Section 108 Loans	33,955
City of San José Parking Fund Loan	6,800
City of San José Parkland Fees Loan	8,112
Sub total – Subordinated Debt	<u>422,612</u>
Total Debt	<u><u>\$ 2,478,117</u></u>

# **REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

## **Management's Discussion and Analysis (continued) June 30, 2009**

During the year, the Agency issued tax allocation bonds and drew down from line of credit:

- Tax Allocation Tax Exempt Bonds Series 2008 A for \$37,150,000
- Tax Allocation Tax Exempt Bonds Series 2008 B for \$80,145,000
- Housing Line of Credit for \$50,000,000

Bond rating agencies comprised of Moody's Investor Services, Inc., Standard & Poor's Ratings Services and Fitch's Ratings have assigned the 2008 Bonds ratings of 'A3', 'A-', and 'A-', respectively.

Additional information about the Agency's long-term obligations can be found on pages 53 to 63 in the notes to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Agency Board (City Council) considers many factors when setting redevelopment project priorities and the budget for the ensuing year. Below are significant factors in considering the Agency's budget for the fiscal year 2009-2010:

- 2.68% growth in assessed valuation of properties in the tax generating project areas, per County of Santa Clara Assessor. This modest increase leads to additional \$30 million bonds, depending on the bond market.
- For the quarter ending June 30, 2009, vacancy rates in San José according to Collier International, a commercial/industrial real estate management firm, were approximately 21.5% for office sector, 12.7% for the industrial sector, 10.2% for warehouse sector, and 23.0% for R&D.
- Unemployment rate of 13.1% at July 2009 in San José was reported by California Employment Development Department (EDD). This is higher than the State's unemployment rate of 11.9% (per EDD) and higher than the national average unemployment rate of 9.4% (US Department of Labor) for the same period.
- Payment of approximately \$62 million to the State's Supplemental Educational Revenue Augmentation Fund (SERAF) as a way to reduce the State's budget gap.
- Reduction of the Agency workforce by 23%.
- Reduction of \$5.3 million of the 2003 Merged Area Revenue Bonds, and extension of the Letters of Credit to November 26, 2009 securing the 1996 Merged Area Revenue Bonds and the 2003 Merged Area Revenue Bonds.



**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)  
June 30, 2009**

**REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 200 East Santa Clara St., 14<sup>th</sup> Floor, San José, CA 95113. Additional financial data may also be found on the Agency's website ([www.sjredevelopment.org/finance.htm](http://www.sjredevelopment.org/finance.htm)).

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Dr. Martin Luther King, Jr. Library



Starbird Youth Center

## BASIC FINANCIAL STATEMENTS



# REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

## Statement of Net Assets Governmental Activities June 30, 2009

### ASSETS

Cash and investments (Note II.A)	\$	119,942,109
Receivables:		
Tax increment		272,321
Accrued interest		380,205
Due from the City of San José		4,224,943
Other		588,772
Advances to the City of San José (Note III.C)		1,080,362
Loans receivable, net (Note II.B)		36,857,593
Deposits		64,516
Deferred charges, net		37,001,658
Restricted assets		
Cash and investments (Note II.A)		157,749,589
Accrued interest receivable		293,504
Capital assets:		
Accumulated redevelopment project costs (Note II.E):		
Nondepreciable		144,758,745
Depreciable, net		4,966,500
Other capital assets (Note II.F):		
Nondepreciable		23,403,320
Depreciable, net		182,161,312
Total assets		<u>713,745,449</u>

### LIABILITIES

Accounts payable and accrued liabilities (Note II.G)		9,191,782
Due to the City of San José		4,148,014
Due to the County of Santa Clara		21,337,197
Unearned revenue (Note II.C)		7,564,402
Liabilities payable from restricted assets:		
Deposits, retentions, and other payables		4,593,206
Accrued interest payable		43,042,975
Noncurrent liabilities (Note II.H):		
Due within one year		93,216,963
Due in more than one year		2,392,796,419
Total liabilities		<u>2,575,890,958</u>

### NET ASSETS

Invested in capital assets, net of related debt		22,217,937
Restricted for debt service		87,136,053
Unrestricted deficit		(1,971,499,499)
Total net assets (deficit)	\$	<u>(1,862,145,509)</u>

See accompanying notes to the basic financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Statement of Activities

Governmental Activities

For the Year Ended June 30, 2009

	<u>Total</u>	<u>General Government</u>	<u>Community Development</u>	<u>Housing</u>	<u>Debt Service</u>
<b>Expenses:</b>					
Salaries, wages and benefits	\$ 15,582,567	\$ 4,322,897	\$ 11,259,670	\$ -	\$ -
Materials, supplies and other services	4,064,304	3,354,511	709,793	-	-
Project expenses	207,800,718	-	117,331,534	90,469,184	-
Depreciation	5,936,174	-	5,936,174	-	-
Interest on debt	110,586,778	-	-	-	110,586,778
Total expenses	<u>343,970,541</u>	<u>7,677,408</u>	<u>135,237,171</u>	<u>90,469,184</u>	<u>110,586,778</u>
<b>Program revenues:</b>					
Operating grants and contributions	32,019,160	-	14,329,688	17,689,472	-
Capital grants and contributions	6,384,149	-	6,384,149	-	-
Net program revenue (expense)	<u>(305,567,232)</u>	<u>\$ (7,677,408)</u>	<u>\$ (114,523,334)</u>	<u>\$ (72,779,712)</u>	<u>\$ (110,586,778)</u>
<b>General revenues:</b>					
Tax increment	202,345,922				
Unrestricted investment earnings	5,134,364				
Developers contributions	997,931				
Miscellaneous	5,047,671				
Total general revenues	<u>213,525,888</u>				
Change in net assets	(92,041,344)				
Net assets (deficit), beginning of year	<u>(1,770,104,165)</u>				
Net assets (deficit), end of year	<u>\$ (1,862,145,509)</u>				

See accompanying notes to the basic financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Balance Sheet

Governmental Funds

June 30, 2009

	General	Special Revenue	Debt Service		Capital Projects	Total
			Housing	Merged		
<b>ASSETS</b>						
Cash and investments (Note II.A)	\$ 1,085,088	\$ -	\$ -	\$ -	\$ 118,857,021	\$ 119,942,109
Receivables (net):						
Tax increment	-	-	-	-	272,321	272,321
Accrued interest	-	-	-	-	380,205	380,205
Due from other funds (Note II.D)	-	54,464	-	-	-	54,464
Due from the City of San José	17,626	-	-	-	4,207,317	4,224,943
Others	11,672	-	-	-	577,100	588,772
Advances to the City of San José (Note III.C)	500,000	-	-	-	580,362	1,080,362
Loans receivable, net (Note II.B)	-	-	-	-	36,857,593	36,857,593
Deposits	38,716	-	-	-	25,800	64,516
Restricted assets:						
Cash and investments (Note II.A)	-	-	414,942	152,690,428	4,644,219	157,749,589
Accrued interest	-	-	-	293,504	-	293,504
<b>TOTAL ASSETS</b>	<b>\$ 1,653,102</b>	<b>\$ 54,464</b>	<b>\$ 414,942</b>	<b>\$ 152,983,932</b>	<b>\$ 166,401,938</b>	<b>\$ 321,508,378</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and accrued liabilities (Note II.G)	\$ 414,246	\$ -	\$ -	\$ -	\$ 8,777,536	\$ 9,191,782
Due to other funds (Note II.D)	-	-	-	-	54,464	54,464
Due to the City of San José	184,737	54,464	-	-	3,908,813	4,148,014
Due to the County of Santa Clara	-	-	-	-	28,837,197	28,837,197
Variable rate demand bonds payable	-	-	-	-	5,300,000	5,300,000
Deferred revenue (Note II.C)	12,519	-	-	-	33,064,892	33,077,411
Unearned revenue (Note II.C)	--	-	-	-	7,564,402	7,564,402
Deposits, retentions, and other payables	3,135	-	-	-	1,896,894	1,900,029
Due to other governmental agencies	-	-	-	-	2,693,177	2,693,177
Total liabilities	614,637	54,464	-	-	92,097,375	92,766,476
Fund balances:						
Reserved for:						
Long-term receivables	-	-	-	-	3,654,948	3,654,948
Advances and deposits	538,716	-	-	-	601,162	1,139,878
Debt service	-	-	-	130,179,028	-	130,179,028
Low and moderate income housing activities	-	-	414,942	-	-	414,942
Encumbrances	112,391	-	-	-	44,863,273	44,975,664
Unreserved, designated for redevelopment activities	387,358	-	-	22,804,904	25,185,180	48,377,442
Total fund balances	1,038,465	-	414,942	152,983,932	74,304,563	228,741,902
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,653,102</b>	<b>\$ 54,464</b>	<b>\$ 414,942</b>	<b>\$ 152,983,932</b>	<b>\$ 166,401,938</b>	<b>\$ 321,508,378</b>

See accompanying notes to the basic financial statements.

## REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

### Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets of Governmental Activities June 30, 2009

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

Fund balances of all governmental funds (Page 32)	\$	228,741,902
Accumulated redevelopment costs are capitalized costs that will be transferred to the City and/or developers upon project completion. These costs are not spendable current financial resources and, therefore, are not reported in the balance sheet of the governmental funds.		149,725,245
Other capital assets used in governmental activities are not spendable current financial resources and, therefore, are not reported in the balance sheet of governmental funds.		205,564,632
A significant portion of loans receivable and other long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis of accounting.		33,077,411
Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.		37,001,658
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the balance sheet of governmental funds.		
Tax allocation bonds	\$	(2,055,505,000)
Revenue bonds		(102,900,000)
Convention Center refunding bonds		(153,310,000)
Pledge obligation (4th/San Fernando Parking Revenue Bonds)		(38,255,000)
ERAF Loan		(23,980,000)
City of San José Parking Fund loan		(6,800,000)
HUD Section 108 loans		(33,955,000)
City of San José Parkland Fees loan		(8,111,800)
Housing Line of Credit		(50,000,000)
Unamortized premiums on bonds		(49,663,922)
Unamortized deferred amount on refundings		51,320,655
Environmental Remediation Obligations		(225,000)
Compensated absences		(1,828,315)
		(2,473,213,382)
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.		(43,042,975)
Net assets (deficit) of governmental activities (page 30)	\$	(1,862,145,509)

See accompanying notes to the basic financial statements.



**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Fund  
For the Year Ended June 30, 2009

	General	Special Revenue	Debt Service		Capital Projects	Total
			Housing	Merged		
<b>REVENUES:</b>						
Tax increment	\$ -	\$ 40,469,184	\$ -	\$ 121,095,022	\$ 40,781,716	\$ 202,345,922
Intergovernmental (Note III.C)	-	-	18,047,045	-	20,285,973	38,333,018
Investment income	29,749	-	34,772	1,247,032	3,822,811	5,134,364
Rent	751,966	-	-	-	564,970	1,316,936
Developers contributions	-	-	-	-	997,931	997,931
Collection of Loans	-	-	-	-	412,533	412,533
Grant revenue	-	-	-	-	70,291	70,291
Other	314,275	-	-	-	2,968,576	3,282,851
<b>Total revenues</b>	<b>1,095,990</b>	<b>40,469,184</b>	<b>18,081,817</b>	<b>122,342,054</b>	<b>69,904,801</b>	<b>251,893,846</b>
<b>EXPENDITURES:</b>						
General government	3,877,156	-	-	-	11,259,670	15,136,826
Intergovernmental:						
Payments to the City of San José (Note III.C)	3,800,252	40,469,184	50,000,000	-	14,666,461	108,935,897
Payments to the County of Santa Clara (Note III.D)	-	-	-	-	23,234,512	23,234,512
Payments to other governmental agencies	-	-	-	-	3,374,324	3,374,324
Debt service:						
Principal repayment	-	-	9,405,000	45,720,000	-	55,125,000
Interest and other charges	-	-	11,096,048	97,407,868	-	108,503,916
Bond issuance costs	-	-	-	1,453,346	-	1,453,346
Capital outlay:						
Project expenditures	-	-	-	-	54,793,777	54,793,777
Payments to the City of San José (Note III.C)	-	-	-	-	19,345,723	19,345,723
Payments to the County of Santa Clara (Note III.D)	-	-	-	-	24,332,261	24,332,261
<b>Total expenditures</b>	<b>7,677,408</b>	<b>40,469,184</b>	<b>70,501,048</b>	<b>144,581,214</b>	<b>151,006,728</b>	<b>414,235,582</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(6,581,418)</b>	<b>-</b>	<b>(52,419,231)</b>	<b>(22,239,160)</b>	<b>(81,101,927)</b>	<b>(162,341,736)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Tax allocation bonds issued	-	-	-	55,938,600	61,356,400	117,295,000
Bond issue discount	-	-	-	(1,347,995)	-	(1,347,995)
Other loan proceeds	-	-	50,000,000	-	-	50,000,000
Reclassification of short-term variable rate demand bonds	-	-	-	-	(5,300,000)	(5,300,000)
Proceeds from sale of capital assets	-	-	-	-	8,364,967	8,364,967
Transfers in (Note II.D)	500,000	-	-	30,545,665	-	31,045,665
Transfers out (Note II.D)	-	-	-	-	(31,045,665)	(31,045,665)
<b>Total other financing sources (uses)</b>	<b>500,000</b>	<b>-</b>	<b>50,000,000</b>	<b>85,136,270</b>	<b>33,375,702</b>	<b>169,011,972</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(6,081,418)</b>	<b>-</b>	<b>(2,419,231)</b>	<b>62,897,110</b>	<b>(47,726,225)</b>	<b>6,670,236</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>7,119,883</b>	<b>-</b>	<b>2,834,173</b>	<b>90,086,822</b>	<b>122,030,788</b>	<b>222,071,666</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 1,038,465</b>	<b>\$ -</b>	<b>\$ 414,942</b>	<b>\$ 152,983,932</b>	<b>\$ 74,304,563</b>	<b>\$ 228,741,902</b>

See accompanying notes to the basic financial statements.

## REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities For the Year Ended June 30, 2009

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

Net change in fund balances of all governmental funds (Page 34)	\$	6,670,236
-----------------------------------------------------------------	----	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is either allocated over their estimated useful lives and reported as depreciation expense or accumulated as redevelopment project costs and transferred to the City and/or developers upon project completion. The components of capital outlay related costs not reported in the statement of activities for the current period are as follows:

Costs capitalized related to accumulated redevelopment projects costs	\$ 9,285,152		
Costs capitalized related to acquisition of various capital assets	12,021,945		
Disposal of capitalized costs related to transfer of capital assets	(10,298,875)		
Depreciation expense	(5,936,174)		
			5,072,048

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. For governmental funds, loans made that are not expected to be repaid in the near future are offset with deferred revenue, whereas, loans made are considered project expenditures and loans collected are considered current year revenue. However, on the statement of activities only interest earnings and bad debt expense are reported.

Revenues collected that were earned in prior years	(423,552)		
Loans collected during the year	25,317		
Loans made during the year	433,586		
Changes in estimates of allowance for doubtful accounts	(5,339,339)		
			(5,303,988)

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 governmental funds.

Claim amount recognized in the fund statements as due and payable	10,275,000		
Change in long-term compensated absences	(305,256)		
			9,969,744

Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities:

Capitalization of bond issuance costs	1,453,346		
Amortization of bond issuance costs	(2,297,863)		
			(844,517)

Repayment of long-term debt principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The Agency's long-term debt was reduced because principal payments were made:

Tax allocation bonds	40,725,000		
Convention Center refunding bonds	6,760,000		
Revenue bonds	2,800,000		
Pledge obligation (4th/San Fernando Parking Revenue Bonds)	1,485,000		
ERAF Loan	3,090,000		
HUD Section 108 loans	265,000		
			55,125,000

*(Continued on next page)*

See accompanying notes to the basic financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
 Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities  
 For the Year Ended June 30, 2009

*(Continued from previous page)*

Expenditures reported in the governmental funds but not to governmental activities		
Reclassification of variable rate demand bonds to short term obligation		5,300,000
<p>Accrued interest expense on long-term debt is reported in the statement of activities, but does not require the use of current financial resources. Amortization of bond premiums, discounts and deferred amounts on refunding is expensed as a component of interest expense on the statement of activities. This amount represents the net accrued interest expense and the amortization of bond premiums, discounts and deferred amounts on refunding not reported in governmental funds:</p>		
Increase in accrued interest expense	\$ (1,961,189)	
Amortization of bond premiums	3,952,435	
Amortization of deferred amounts on refunding	<u>(4,074,108)</u>	\$ (2,082,862)
<p>Proceeds from borrowing are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.</p>		
Proceeds were received from:		
Housing Line of Credit	(50,000,000)	
The issuance of tax allocation bonds	<u>(115,947,005)</u>	<u>(165,947,005)</u>
Change in net assets of governmental activities (page 31)		<u>\$ (92,041,344)</u>

See accompanying notes to the basic financial statements.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements  
June 30, 2009**

The Notes to the Financial Statements include a summary of significant accounting policies and all other disclosures considered necessary for an adequate understanding of the Agency's basic financial statements. For easy navigation, an index of the Notes is shown below:

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**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Redevelopment Agency of the City of San José (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Agency are described below:

**A. Reporting Entity**

The Agency was established in 1956 by the San José City Council as a public entity legally separate from the City of San José (the City). In 1975, the City Council declared itself the Agency Board, replacing a separate board. The Agency has the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Area.” Redevelopment projects may be developed in cooperation with private developers. Redevelopment projects are also developed under cooperation agreements between the Agency and the City. The cooperation agreements call for the City to provide certain general, administrative, and other services in exchange for amounts paid by the Agency.

The Agency generally finances redevelopment projects through the issuance of tax allocation bonds. These bonds are payable from the incremental portion of property taxes collected within a project area relating to the increase in assessed valuation resulting from redevelopment. The County of Santa Clara (the County) collects these incremental tax revenues on behalf of the Agency. The Agency has a tax sharing agreement with the County that requires sharing of incremental tax revenues with the County.

The Agency has merged all of its redevelopment areas into a single “Merged Project Area” in order to combine tax increment revenues to obtain greater financing power through issuance of tax allocation bonds.

Under GASB Statement No. 14, *The Financial Reporting Entity*, the Agency is considered a component unit of the City since the Agency Board consists exclusively of the Mayor and the other City Council. Consequently, the Agency’s financial statements are blended in the City’s basic financial statements.

**B. Measurement Focus, Basis of Accounting, and Basis of Presentation**

*Government-wide Financial Statements*

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property tax increment, grants, and donations. On an accrual basis, revenue from property tax increment is recognized in the fiscal year for which the taxes are levied.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

Other revenues such as grants and similar items are recognized in the fiscal year in which all eligibility requirements have been satisfied. When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources related to grants are depleted.

The statement of net assets and statement of activities display information about the Agency as a whole and, accordingly, eliminations have been made to remove interfund activities.

The statement of activities presents a comparison of direct expenses and program revenues for activities of the Agency. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including property tax increment, are presented instead as general revenues.

*Fund Financial Statements*

The accounts of the Agency are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. The primary revenue sources susceptible to accrual are property tax increment, intergovernmental and grant revenues, investment income, developer contributions, and rent. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

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.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

The Agency reports the following major governmental funds:

- The *General Fund* is used to account for the Agency's general and administrative expenditures.
- The *Special Revenue Fund* is used to account for revenue sources that are legally restricted to expenditures for specified purposes. The purpose of this fund is to account for that portion of tax increment revenue required to be used towards low and moderate-income housing.
- The *Housing Debt Service Fund* was established to account for the payment of interest and principal on the Agency's merged area housing set-aside tax allocation bonds. The primary source of revenue for this fund is intergovernmental revenue from the City of San José Housing Department representing repayments of housing bonds per bond indentures.
- The *Merged Debt Service Fund* was established to account for the payment of interest and principal on the Agency's merged area tax allocation bonds, revenue bonds, refunding revenue bonds, and other loans. The primary source of revenue for this fund is the incremental property tax revenues.
- The *Capital Projects Fund* accounts for all revenues and costs of implementing the redevelopment projects in accordance with the California Redevelopment Law including acquisition of properties, cost of site improvements, and other costs that benefit the projects.

**C. Assets, Liabilities, Equity and Operations**

**1. Investments**

The Agency records investment transactions on the trade date. Investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount that the Agency could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices. Investment income, including unrealized gains and losses, is recognized as revenue in both government-wide and fund financial statements.

**2. Property Tax Increment Revenues**

Incremental property tax revenues represent taxes collected in the merged redevelopment project area from the excess of taxes levied and collected over that amount which was levied and collected in the base year (the inception year of redevelopment project areas) property tax assessment along with a provision for inflation.

Under California Proposition 13, the 1975-1976 regular roll value serves as the original base value of the property. Thereafter, changes to the assessment on real property value or a portion thereof, caused by new construction or changes in ownership create the base year value used in establishing the full cash value. The full cash value is the amount of cash or equivalent value of property if exposed for sale in the open market. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

local data at a rate not to exceed 2% per year, or reduced in the event of declining property values caused by damage, destruction or other factors, including a general economic downturn. The maximum basic property tax rate is 1% of the net taxable value of the property. The total tax rate may be higher for various properties because of voter-approved general obligation bonds that are secured by property taxes for the annual payment of principal and interest.

The County of Santa Clara assesses properties, bills, and collects property taxes, as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	October 1	July 1
Due dates (delinquent after)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

Taxes are secured by liens on the property being taxed. The term “unsecured” refers to taxes on property other than land and buildings. Supplemental property taxes are levied based on changes in assessed values between the date of real property sales and construction and the next normal assessment date.

The County bills and collects property taxes and remits to the Agency its share of the amount levied. The County allocates property taxes to the Agency based on 100% of the tax levy, notwithstanding any delinquencies. Revenue is recognized when it is levied and received from the County, as discussed under section of Basis of Accounting.

**3. Restricted Assets**

Assets that are restricted for specified uses by bonded debt requirements, grant provisions or other requirements are classified as restricted because they are maintained in separate bank accounts or by fiscal agents, and their use is limited by applicable bond covenants or agreements. Liabilities payable from such restricted assets are separately classified on the statement of net assets.

**4. Capital Assets**

**Accumulated Redevelopment Project Costs**

Accumulated Redevelopment Project Costs consist of costs associated with land acquisition, building construction, and construction in progress for redevelopment projects that will be transferred to the City or a developer (i.e. title and ownership of the assets will be given to the City or a developer) in accordance with development agreements. These are recorded in the government-wide financial statements at historical cost. The building is depreciated using the straight-line method over the estimated useful life of 40 years.



**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

**Other Capital Assets**

The Agency defines other capital assets as assets used in redevelopment operations with an initial individual cost of at least \$5,000 and an estimated useful life in excess of one year. The capital assets consist of both depreciable and non-depreciable assets. Other capital assets are recorded in the government-wide financial statements at historical cost and are being depreciated using the straight-line method over the estimated useful life of 40 years for the parking structure and buildings, 25 years for leasehold improvements, and 5 years for equipment.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the statement of activities. However, the proceeds from the sale of capital assets are recorded as other financing sources in the governmental fund statement of revenues, expenditures, and changes in fund balances.

**5. Compensated Absences (Accrued Vacation and Sick Leave)**

As part of the employees' compensation package, the Agency provides benefits to its employees by establishing a Paid Time Off (PTO) and Extended Sick Leave (ESL) benefit programs. Under these programs, employees are permitted to accumulate earned PTO and ESL benefits and to carry over up to 400 unused PTO hours to the following fiscal year. Vested or accumulated PTO and ESL are reported as a long-term liability on the statement of net assets and are paid out of the General Fund. All regular employees scheduled to work 20 hours or more per week are entitled to the PTO and ESL benefits. The amount of PTO earned each year is based on employees' continuous length of service, measured from the date of employment. The maximum PTO annual accrual per employee may not exceed 400 hours at the end of the fiscal year. ESL hours are credited at the rate of 40 hours per fiscal year for all regular employees regardless of length of service.

Agency employees may choose once during the fiscal year to receive the cash value for accumulated PTO hours of over 200 unused hours by selling time back to the Agency, providing that the employees' PTO balance after the sell-back is above 200 and less than the maximum allowable. Earned and unused PTO is paid in full while only 25% of earned but unused ESL is paid out. Upon termination, payouts of PTO and ESL are calculated as earned on a bi-weekly accrual schedule.

**6. Issuance Costs, Original Issue Discounts, Premiums, and Refundings**

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

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

In the fund financial statements, bond issuance costs, premiums, and discounts are recognized at the time bonds are issued. 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.

**7. Interfund Transactions**

Interfund transactions are reflected either as loans, services provided, reimbursements, or transfers in the government fund financial statements. Loans between funds are reported as receivables and payables as appropriate, and are subject to elimination upon consolidation and are referred to as “due to/from other funds.”

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are recorded when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide presentation.

**8. Use of Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**II. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Investments**

The Agency’s cash and investments consist of the following at June 30, 2009:

<u>Cash and Investments</u>	<u>Amount</u>
Unrestricted	\$ 119,942,109
Restricted	157,749,589
Total cash and investments	<u>\$ 277,691,698</u>

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

***Investments***

The Agency has adopted the investment policy of the City, which is governed by provisions of the California Government Code and the City's Municipal Code. The Agency also has investments subject to provisions of the bond indentures of its various bond issues. According to the investment policy and bond indentures, the Agency is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

The Agency maintains all of its unrestricted investments in the City's cash and investment pool. It is not possible to disclose relevant information about the Agency's separate portion of the cash and investment pool, as there are no specific investments belonging to the Agency itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2009, basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13<sup>th</sup> Floor, San José, CA, 95113 or can be found at the City's Finance Department Web Site at <http://www.sanjoseca.gov/>. Investment in City's Investment Pool reflects a zero balance at year-end.

Income earned or losses arising from investments in the City's cash and investment pool are allocated by the City on a monthly basis to the appropriate funds based on the average weekly cash balance of such funds.

As of June 30, 2009, the Agency has invested a total amount of \$143,346,581 with State of California Local Agency Investment Fund (LAIF), which is comprised of \$13,004,205 from the 2003 Tax Allocation Bonds reserve fund, \$7,529,096 from the 2008 Tax Allocation Bond's capitalized interest, \$67,687,467 in project funds from the 2008 Tax Allocation Bonds, and \$55,125,813 in project funds from the 2007 Tax Allocation Bonds. The Agency's proportionate share of structured notes and asset-backed securities as of that date is \$18,065,833 or 14.71%. The Local Investment Advisory Board has oversight responsibility for LAIF (<http://www.treasurer.ca.gov/pmia-laif/>). The Board consists of five members, as designated by state statute. LAIF is part of the Pooled Money Investment Account (PMIA) maintained by the State of California. The PMIA oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee with the State Treasurer's Office. The PMIB members are the California's State Treasurer, Director of Finance, and State Controller. The value of the pool shares in LAIF, which may be withdrawn upon request, is determined on an amortized cost basis, which is different from the fair value of the Agency's position in the pool.

***Custodial Credit Risk***

The Agency's investment policy states that uninsured deposits shall be collateralized in the manner prescribed by State law. The amounts placed on deposit with banks were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the

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**Notes to the Basic Financial Statements (continued)  
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pledging financial institutions' trust department or agent in the Agency's name. Accordingly, the exposure to custodial credit risk is low as of and for the year ended June 30, 2009.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. The Agency's investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification. These limits, for investments other than the external investment pools and money market mutual funds which have a maturity of one day, are as few as 10 days and as long as 5 years.

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The Agency's investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

***Concentration of Credit Risk***

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Agency. The Agency's investment with the City's Cash and Investment Pool mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5 % of the total portfolio other than securities issued by the U.S. government and its affiliated agencies. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

As of June 30, 2009, \$77,417,341 is invested in commercial paper. This represents tax increment money sent to the Agency's Fiscal Agent for future debt service payment on the Agency's outstanding Tax Allocation Bonds. Under the bond indenture, investments in commercial paper are limited to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the Agency policy to limit its investments in this investment type to the top rating issued by NRSROs. As of June 30, 2009, the Agency's investments in commercial paper represents investment with Union Bank (16%) and GE Capital (12%), and Federal Home Loan Bank (8%), which exceeded the 5% concentration risk threshold (total investments with Fiscal Agent), but they are permitted investment as defined by bond indenture.

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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

A summary of the Agency's investments at June 30, 2009 is as follows:

Type of Investment	Credit Rating	Maturity				Fair Value
		Under 30 days	31 - 180 days	181 - 365 days	1 - 5 years	
State of California Local Agency Investment Fund *	Unrated	\$ -	\$ -	\$143,346,581	\$ -	\$143,346,581
Federal Home Loan Banks	Aaa / Prime - 1	9,929,595	-	5,300,591	8,043,994	23,274,180
Federal Farm CR BKS Global	Aaa / Prime - 1	-	-	-	5,373,152	5,373,152
Money Market Mutual Fund	Aaa	-	3,702,491	-	-	3,702,491
Commercial Paper	A1/P1/F1	32,250,895	45,166,446	-	-	77,417,341
Subtotal		<u>\$42,180,490</u>	<u>\$48,868,937</u>	<u>\$148,647,172</u>	<u>\$13,417,146</u>	253,113,745
Deposit with Financial Institution						19,930,234
Certificates of deposits (escrow accounts)						4,644,219
Petty cash						<u>3,500</u>
Grand Total						<u><u>\$ 277,691,698</u></u>

\*The credit risk rating for investment in LAIF is not available as there are no specific investments belonging to the Agency.

***Restricted Investments in the Debt Service Funds***

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and amounts held for investment purposes. These accounts are reported in debt service funds. As of June 30, 2009, the amounts held by the trustees aggregated to \$153,398,874, which is comprised of: \$22,804,904 proceeds of the 2008 Tax Allocation Bonds kept with the bond trustee for investment purposes, which is available for withdrawal at anytime by the Agency, and \$130,593,970 in compliance with amounts required to be held by the trustee. All restricted investments held by trustees as of June 30, 2009 were invested in federal agency notes, commercial papers, money market mutual funds and LAIF, and were in compliance with the bond indentures.

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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

***Restricted Deposits in the Capital Projects Fund***

Pursuant to contracts and agreements made by the Agency, certain funds are required to be held in escrow accounts that remain the property of the Agency; however, their use is restricted for a particular purpose, which as of June 30, 2009, are as follows:

Project/Program	Amount
Dr. Martin Luther King, Jr Library	\$ 2,270,995
The 88 Tower	1,633,802
Miscellaneous Redevelopment Projects	739,422
Total restricted deposits	\$ 4,644,219

**B. Loans Receivable**

Composition of loans receivable as of June 30, 2009, is as follows:

Description	Loan Balance
1 Parcels of land sold to developers	\$ 2,000,000
2 HUD Section 108 loans	3,644,948
3 Grocery store improvement loan	850,909
4 Rehabilitation of apartment complex	534,415
5 Historic homes relocation loans	4,228,252
6 Rehabilitation of residential units	235,196
7 Commercial building loans	8,951,634
8 Residential housing projects	19,792,606
9 Rehabilitation of historic hotel building	5,265,000
10 Small business loan program	348,709
Total loans	45,851,669
Accrued interest receivable	4,144,085
Total loans and interest receivable	49,995,754
Less allowance for doubtful accounts	(13,138,161)
Loans and interest receivable, net	\$ 36,857,593

1.) Over the years, parcels of land have been sold to commercial real estate developers in various mixed-use projects. In one downtown residential condo project, a non-interest bearing promissory note was recorded in 2007 whereby the Agency deferred a portion of the land sale to when the first residential unit closes escrow. As of June 30, 2009, the amount due from the developer was \$2,000,000. A 100% provision for doubtful accounts was provided for the entire loan balance.

2.) In 1997 and 2007, the Agency extended loans to developers using funds obtained from the U.S. Department of Housing and Urban Development Section 108 loan proceeds. These loans have a 20-year repayment schedule, bear interest at an annual rate of 3%, and require principal and interest

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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

payments to the Agency on a monthly basis. As of June 30, 2009, the amount due from the developers was \$3,644,948.

3.) In 2005, a developer assigned its Commercial Rehabilitation loan with the Agency to a new entity by assuming all the rights, title, interest, and obligations as borrower. The loan was restructured, has a 13-year term bearing interest at an annual rate of 4%, and requires principal and interest payments to the Agency on an annual basis. The loan agreement stipulated that on each consecutive anniversary of the opening date of the business, the new borrower shall deem to have been paid one-seventh of the original loan including interest if it continues its grocery business operations in the premise. Because of this arrangement and anticipation that the new borrower will continue its business operations on the premise, a 100% provision for doubtful accounts was provided for the entire loan balance of \$850,909.

4.) In 1999, the Agency extended a loan to a developer for rehabilitation of an apartment complex. The loan to the developer has a 19-year repayment schedule, bears interest at an annual rate of 3%, and requires principal and interest payments to the Agency on a monthly basis. As of June 30, 2009, the amount due from the developer was \$534,415.

5.) The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were provided to families and a non-profit agency, which provided the interior and exterior improvements. The loans are to be paid only in the event of non-compliance with the terms and conditions of the agreements. At the time residential occupancy of the house ceases or the property is transferred to anyone other than the owner by any method other than inheritance, the unamortized portion of the loan shall become due and payable in full. Unpaid principal shall bear an interest rate of 8% per annum. The total loans of \$4,228,252 have been offset with a 100% provision for doubtful accounts as it is anticipated that these loans will be forgiven.

6.) The Agency extended various bank-assisted loans to aid first-time homebuyers and to aid with the rehabilitation of homes. The loans accrue interest at various interest rates and are due when the related properties are sold. As of June 30, 2009, the net amount due from such loans was \$235,196. An allowance for doubtful accounts in the amount of \$20,000 was made for anticipated write-offs.

7.) The Agency extended various loans to property owners for the rehabilitation and improvements of commercial buildings. These loans accrue interest at various interest rates and are due within 10 to 25 years. At June 30, 2009, the total amount due from such loans was \$8,951,634. An allowance for doubtful accounts in the amount of \$774,000 was made for anticipated write-offs.

8.) The Agency entered into Disposition and Development Agreements with various developers for the construction of residential housing units in redevelopment project areas. The funding assistance extended by the Agency was converted to loans bearing an interest rate ranging from 2% to 4%. As of June 30, 2009, the amount due from the developers was \$19,792,606.

9.) In May 2005, the Agency amended and restated a Disposition and Development Agreement with a developer recognizing a loan for the rehabilitation of a historic hotel building. The loan has a 60-year repayment schedule, bears no interest, and requires principal payments to the Agency on a semi-

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**Notes to the Basic Financial Statements (continued)  
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annual basis starting in fiscal year 2020-2021. As of June 30, 2009, the amount due from the developer was \$5,265,000. A 100% provision for doubtful accounts was provided for the entire loan balance due to the extended timeline before payments commence.

10.) In June 2002 the Agency Board approved the creation of the Small Business Loan Program to be administered by the City's Office of Economic Development (OED) and to be funded by the Agency. The program offers reduced-rate loans to small businesses located in Downtown and Neighborhood Business Districts. In July 2008 administration of the program was transferred from OED to the Agency. As of June 30, 2009, the outstanding loans totaled \$348,709.

**C. Deferred Revenue and Unearned Revenue**

At June 30, 2009, the various components of deferred revenue and unearned revenue reported in the governmental funds and governmental activities were as follows:

	Amount
Amounts considered unavailable (deferred revenue), as reported in the fund financial statements:	
Related to loans receivable	\$ 33,077,411
Amounts considered unearned:	
Related to developers contributions	\$ 4,000,374
Related to other long-term receivables	3,564,028
Total unearned revenue, as reported in the fund financial statements	\$ 7,564,402

**D. Interfund Balances and Transactions**

The composition of borrowing between funds for the fiscal year ended June 30, 2009, is as follows:

Due from Other Funds:	Due to Other Funds:	Amount
Special Revenue Fund	Capital Projects Fund	\$54,464

The \$54,464 represents the balance of 20% tax increment revenue to be transferred to the City of San Jose for low-moderate income housing projects as of June 30, 2009.



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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

The composition of interfund transfers for the fiscal year ended June 30, 2009, is as follows:

Transfer-In Fund	Transfer-out Fund	Amount
Merged Debt Service Fund	Capital Projects Fund	\$ 30,545,665
General Fund	Capital Projects Fund	500,000
Total		\$ 31,045,665

As listed in the above, the \$30,545,665 represents transfers necessary to make required debt service payments and the \$500,000 represents transfers to general fund to cover the general and administrative expenditures.

**E. Capital Assets - Accumulated Redevelopment Project Costs**

For the fiscal year ended June 30, 2009, the change in accumulated redevelopment project costs consisted of the following:

	July 1, 2008	Addition	Disposition/ Transfer	June 30, 2009
Non depreciable:				
Land held for redevelopment	\$ 143,439,089	\$ 3,319,063	\$ (10,298,875)	\$ 136,459,277
Construction in progress	2,333,379	5,966,089	-	8,299,468
Total Non depreciable	145,772,468	9,285,152	(10,298,875)	144,758,745
Depreciable:				
Building	5,160,000	-	-	5,160,000
Total Depreciable	5,160,000	-	-	5,160,000
Less: accumulated depreciation				
Building	64,500	129,000	-	193,500
Total Depreciable, net	5,095,500	(129,000)	-	4,966,500
Total Accumulated Project Costs, Net	\$ 150,867,968	\$ 9,156,152	\$ (10,298,875)	\$ 149,725,245

During the year, parcels of land with a cost aggregating to \$3,319,063 located in the Agency's Merged Project Area were acquired for the future development. Other redevelopment project costs totaling \$5,966,089 were added during the current year, which include Edenvale Community Center (\$4,792,341) and other projects (\$1,173,748).

During the current year, land held for redevelopment aggregating to \$10,298,875, which includes Adobe (\$5,641,926) and southwest corner of Story and King Roads (\$4,656,949), were transferred to the developers in accordance with Disposition and Development Agreements.

**REDEVELOPMENT AGENCY OF  
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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

Construction in progress as of June 30, 2009, consisted of the following:

Edenvale Community Center	\$	4,792,341
4th Street Garage Parking - Tenant's Improvement		2,056,567
Brandenburg Street Realignment		636,831
St. James Park Improvements		253,000
Others		560,729
Total construction in progress	\$	<u>8,299,468</u>

**F. Other Capital Assets**

A summary of changes in the Agency's other capital assets for the fiscal year ended June 30, 2009, is as follows:

	June 30, 2008	Addition	June 30, 2009
Capital assets, not being depreciated:			
Land	\$ 23,088,463	\$ 314,857	\$ 23,403,320
Capital assets, being depreciated:			
Buildings	167,856,221	-	167,856,221
Building Improvements	9,235,316	11,707,088	20,942,404
Parking structure	10,000,000	-	10,000,000
Leasehold improvements	1,888,250	-	1,888,250
Machinery and equipment	1,144,956	-	1,144,956
Total capital assets, being depreciated	<u>190,124,743</u>	<u>11,707,088</u>	<u>201,831,831</u>
Less accumulated depreciation:			
Buildings	7,450,199	4,292,024	11,742,223
Building Improvements	728,397	1,005,924	1,734,321
Parking structure	5,125,000	250,000	5,375,000
Leasehold improvements	251,818	79,922	331,740
Equipment	307,931	179,304	487,235
Total accumulated depreciation	<u>13,863,345</u>	<u>5,807,174</u>	<u>19,670,519</u>
Total capital assets, being depreciated, net	<u>176,261,398</u>	<u>5,899,914</u>	<u>182,161,312</u>
Total capital assets, net	<u>\$ 199,349,861</u>	<u>\$ 6,214,771</u>	<u>\$ 205,564,632</u>

**REDEVELOPMENT AGENCY OF  
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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

The Other Capital Assets consist of the following:

	Land	Depreciable Cost	Total Cost	Accumulated Depreciation	Net Asset Value
California Theatre	\$ -	\$ 74,334,735	\$ 74,334,735	\$ 5,615,263	\$ 68,719,472
Dr. Martin Luther King, Jr. Library (New)	-	64,785,278	64,785,278	4,983,483	59,801,795
Billy DeFrank Community Center	2,077,461	1,070,435	3,147,896	80,283	3,067,613
Jose Theatre	845,820	7,155,774	8,001,594	550,443	7,451,151
Block 3 - Central Place Parking Garage	-	20,510,000	20,510,000	512,750	19,997,250
Convention Center Expansion-South Hall	20,480,039	7,113,559	27,593,598	1,130,486	26,463,112
Convention Center Phase I Expansion	-	11,019,505	11,019,505	491,440	10,528,065
Civic Auditorium	-	2,677,854	2,677,854	108,013	2,569,841
Hotel Parking Garage Structure	-	10,000,000	10,000,000	5,375,000	4,625,000
Fairmont Annex Retail Improvement	-	1,888,250	1,888,250	331,740	1,556,510
San Jose Stage	-	107,985	107,985	3,600	104,385
MACLA/Moviento de Arte y Cultura Latino Americana	-	23,500	23,500	783	22,717
Equipment	-	1,144,956	1,144,956	487,235	657,721
Total	<u>\$ 23,403,320</u>	<u>\$ 201,831,831</u>	<u>\$ 225,235,151</u>	<u>\$ 19,670,519</u>	<u>\$ 205,564,632</u>

The Jose Theater, Convention Center Expansion-South Hall Site, and three other parcels of land were used to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban development.

Changes during the year include capitalized expenditures of \$9,157,697 for the Convention Center Phase I Expansion, \$2,417,906 for the Civic Auditorium, \$107,985 for San Jose Stage and \$23,500 for MACLA/Movimiento de Arte y Cultura Latino Americana.

Depreciation of the capital assets is charged to the Community Development functional expense in the statement of activities.

**G. Accounts Payable and Accrued Liabilities**

Agency accounts payable and accrued liabilities at June 30, 2009, are as follows:

	General Fund	Capital Projects Fund	Total
Accounts payable	\$ 22,632	\$ 8,699,342	\$ 8,721,974
Accrued salaries and benefits	391,614	78,194	469,808
Total	<u>\$ 414,246</u>	<u>\$ 8,777,536</u>	<u>\$ 9,191,782</u>

**REDEVELOPMENT AGENCY OF  
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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

**H. Debt**

*Long-term Debt*

The following is a summary of bonds and loans payable of the Agency as of June 30, 2009 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Range Interest Rate	Annual Principal Installments	June 30, 2009 Balance
Tax Allocation Bonds (TAB):							
1993 Merged Refunding	Advanced refunding	\$692,075	12/1/1993	8/1/2015	6.00%	\$11,595-18,195	\$59,680
1997 Merged	Merged Area projects	106,000	3/27/1997	8/1/2028	5.38-5.63%	\$10-715	6,680
1998 Merged	Merged Area projects	175,000	3/19/1998	8/1/2009	5.00%	\$545-1,505	1,505
1999 Merged	Merged Area projects	240,000	1/6/1999	8/1/2019	4.75%	\$5,755-7,165	12,920
2002 Merged	Merged Area projects	350,000	1/24/2002	8/1/2015	4.00-5.00%	\$1,875-11,290	22,565
2003 Merged	Merged Area projects	135,000	12/22/2003	8/1/2033	4.00-5.00%	\$25-34,100	127,545
2004 A Merged Refunding	Refund portion of TABs	281,985	5/27/2004	8/1/2019	4.23-5.25%	\$8,775-31,900	242,105
2005 A/B Merged Refunding	Refund portion of TABs	220,080	7/26/2005	8/1/2028	3.50-5.00%	\$115--26,210	219,855
2006 A/B Merged	Merged Area projects	81,300	11/14/2006	8/1/2035	4.50-5.65%	\$1,000-21,000	80,300
2006 C/D Merged Refunding	Refund portion of TABs	701,185	12/15/2006	8/1/2032	3.75-5.00%	\$450-74,280	700,735
2007 A-T/B Merged	Merged Area projects	212,930	11/7/2007	8/1/2036	4.25-5.10%	\$1,660-23,970	211,050
2008 A/B Merged	Merged Area projects	117,295	11/13/2008	8/1/2035	5.25 - 7.00%	\$3,030-29,065	117,295
1997 Housing, Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75-5.85%	\$340-3,670	17,045
2003 Housing, Series J & K	Low-moderate income housing	69,000	7/10/2003	8/1/2029	2.00-5.25%	\$2,545-16,370	52,120
2005 Housing Series A & B	Low-moderate income housing	129,720	6/30/2005	8/1/2035	3.75-5.46%	\$970-57,755	125,590
2005 Housing Series C & D	Low-moderate income housing	66,150	6/30/2005	8/1/2035	Variable	\$100-1,570	58,515
Total Tax Allocation Bonds							<u>\$2,055,505</u>

**REDEVELOPMENT AGENCY OF  
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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

(Continued from previous page)

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Range Interest Rate	Annual Principal Installment	June 30, 2009 Balance
Other Long-term Debt:							
1996 Merged Area Revenue, Series A/B	Merged area projects	\$ 59,000	6/27/1996	7/1/2026	Variable	\$800- 2,000	\$51,600
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	\$500- 3,900	56,600
Pledge obligation - 4th/San Fernando Parking Revenue Bonds	4th/San Fernando parking facility project	48,675	4/10/2001	9/1/2026	3.80- 5.25%	\$1,430- 3,205	38,255
2001 Convention Center Refunding Bonds, Series F	Convention Center refunding project	190,730	7/1/2001	9/1/2022	4.00- 5.00%	\$6,760- 14,730	153,310
CSCDA ERAF Loan	Fund the State's ERAF Program	19,085	4/27/2005	8/1/2015	4.46- 5.01%	\$1,785- 2,355	12,590
CSCDA ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2006	8/1/2016	4.41- 5.67%	\$1,305- 1,905	11,390
HUD Section 108 Loans	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	\$265- 465	2,955
HUD Section 108 Loans	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	\$570- 1,135	13,000
HUD Section 108 Loans	Merged area projects	18,000	6/30/2006	8/1/2025	Variable	\$670- 1,570	18,000
City of San José Parking Fund Loan	Merged area projects	6,800	4/12/2005	7/31/2012	None	\$6,800	6,800
City of San José Parkland Fees	Parkland Dedication	8,112	7/1/2007	6/30/2010	None	\$8,112	8,112
Housing Line of Credit	Low-moderate income housing	50,000	7/1/2008	4/1/2014	Variable	\$10,000	<u>50,000</u>
Total Other Long-term Debt							<u>422,612</u>
Total Long-term Debt							<u>\$ 2,478,117</u>

**REDEVELOPMENT AGENCY OF  
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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

A summary of the changes in long-term debt during the fiscal year ended June 30, 2009 follows (in thousands):

	Balance July 1, 2008	Additions	Payments/ Refundings	Balance June 30, 2009	Amount Due in One Year
Tax allocation bonds:					
1993 Merged Refunding	\$ 71,970	\$ -	\$ (12,290)	\$ 59,680	\$ 13,030
1997 Merged	6,940	-	(260)	6,680	280
1998 Merged	2,050	-	(545)	1,505	1,505
1999 Merged	12,920	-	-	12,920	-
2002 Merged	22,565	-	-	22,565	-
2003 Merged	127,545	-	-	127,545	-
2004 A Merged Refunding	257,885	-	(15,780)	242,105	19,580
2005 A & B Merged Refunding	219,970	-	(115)	219,855	4,860
2006 A & B Merged	80,300	-	-	80,300	-
2006 C & D Merged Refunding	701,185	-	(450)	700,735	560
2007 A-T/B Merged	212,930	-	(1,880)	211,050	1,660
2008 A & B Merged	-	117,295	-	117,295	3,030
1997 Housing, Series E	17,045	-	-	17,045	-
2003 Housing, Series J & K	55,650	-	(3,530)	52,120	3,630
2005 Housing, Series A & B	127,210	-	(1,620)	125,590	1,685
2005 Housing, Series C & D	62,770	-	(4,255)	58,515	1,780
Total tax allocation bonds	<u>1,978,935</u>	<u>117,295</u>	<u>(40,725)</u>	<u>2,055,505</u>	<u>51,600</u>
Other long-term debt:					
1996 Merged Area Revenue, Series A/B	53,200	-	(1,600)	51,600	1,600
2003 Merged Area Revenue, Series A/B	57,800	-	(1,200)	56,600	6,600
Pledge obligation – 4th/San Fernando parking revenue bonds	39,740	-	(1,485)	38,255	1,545
2001 Convention Center Refunding Bonds, Series F	160,070	-	(6,760)	153,310	7,415
CSCDA ERAF Loan	27,070	-	(3,090)	23,980	3,245
HUD Section 108 loans, variable rate loans	34,220	-	(265)	33,955	955
City of San José Parking Fund Loan	6,800	-	-	6,800	-
Housing Line of Credit	-	50,000	-	50,000	10,000
City of San José Deferred Parkland Fees	8,112	-	-	8,112	2,300
Total other long-term debt	<u>\$ 387,012</u>	<u>\$ 50,000</u>	<u>\$ (14,400)</u>	<u>\$ 422,612</u>	<u>\$ 33,660</u>

**REDEVELOPMENT AGENCY OF  
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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

(Continued from previous page)	Balance July 1, 2008	Additions	Payments/ Refundings	Balance June 30, 2009	Amount Due in One Year
Total long-term debt, before premiums, discounts, and deferred amount on refunding	\$ 2,365,947	\$ 167,295	\$ (55,125)	\$ 2,478,117	\$ 85,260
Unamortized issuance premium/(discount)	54,964	(1,348)	(3,952)	49,664	3,927
Unamortized deferred amount on refunding	(55,395)	-	4,074	(51,321)	(3,906)
Total long-term debt payable	<u>2,365,516</u>	<u>165,947</u>	<u>(55,003)</u>	<u>2,476,460</u>	<u>85,281</u>
Environmental Land Remediation Obligation	-	225	-	225	70
Claims liabilities	18,000	-	(10,500)	7,500	7,500
Compensated absences	1,523	610	(305)	1,828	366
Total long-term obligations	<u>\$ 2,385,039</u>	<u>\$ 166,782</u>	<u>\$ (65,808)</u>	<u>\$ 2,486,013</u>	<u>\$ 93,217</u>

The Merged Tax Allocation Bonds are senior debt and are repaid with the 80% tax increment. The Housing bonds are repaid with the 20% Housing Set-Aside Amounts. The other long-term debt is repaid with lease revenue, interest earnings, parking revenue, repayment of developers' loans, rents, and other revenues, including tax increment remaining after payment of Merged Area TABs.

***2008 Merged Area Tax Allocation Bonds***

In the current year, the Agency issued Merged Area Tax Allocation Bonds, Series 2008A and Series 2008B amounting to \$37,150,000 and \$80,145,000, respectively. The proceeds of these bonds have been and will be used to finance eligible redevelopment projects within the Merged Area, and fund debt service reserve fund, costs of issuance and initial interest payment. The 2008 Tax Allocation Bonds were issued in parity with other outstanding Tax Allocation Bonds issued by the Agency and are secured primarily by a pledge of tax revenues, consisting of a portion of all taxes levied upon all taxable properties in the Merged Redevelopment Area.

The interest rates for Series 2008A range from 5.25% to 7.0% and have a final maturity date of August 1, 2035.

***Previous Issued Merged Area Tax Allocation Bonds***

The Merged Area Tax Allocation Bonds (TAB), which is comprised of Series 1993, Series 1997, Series 1998, Series 1999, Series 2002, Series 2003, Series 2004 A, Series 2005 A&B, Series 2006 A/B, Series 2006 C/D, Series 2007 A-T/B and Series 2008 A&B, are all secured primarily by a pledge of tax increment revenues, consisting of a portion of all taxes levied upon all taxable properties within each of the redevelopment project areas constituting the Merged Area

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**Notes to the Basic Financial Statements (continued)  
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Redevelopment Project, and are equally and ratably secured on a parity with each TAB series. The total projected tax increment revenue through the period of the bonds is approximately \$3,572,452,000. These revenues have been pledged until the year 2036, the final maturity date of the bonds. Debt service payment for these TABs is payable semi-annually on February 1 and August 1. The total principal and interest remaining on these TABs is \$3,026,600,390 which is 85 percent of the total projected tax increment revenues. The pledged tax increment revenue recognized during the fiscal year ended June 30, 2009 was \$161,877,000 as against the total debt service payment of \$114,579,000.

***1996 Tax Allocation Revenue Bonds***

In June 1996 the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B, for \$29,500,000 each, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996 Bonds are subordinate to the 1993 Merged Area Refunding Tax Allocation Bonds. The 1996 Bonds have a variable rate of interest and Series A bears interest at a weekly rate while Series B bears interest at a daily basis. The rate modes (daily, weekly, monthly) may be changed at the Agency's option.

In connection with the issuance of the 1996 Bonds, the Agency obtained two letters of credit of approximately \$29,900,000 each in order to satisfy bond indenture requirements. The letters of credit were set to expire on October 31, 2010, but have been extended to November 27, 2010 (see Note III.E Subsequent Events).

The daily and weekly rates are the rates that result in the market value of the bonds being equal to 100% of the principal amount outstanding. The average interest rate for the daily and weekly rates for the year ended June 30, 2009, was 0.13%.

***2003 Tax Allocation Revenue Bonds***

In August 2003 the Agency issued Merged Area Revenue Bonds Series A and Series B aggregating to \$60,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003 Tax Revenue Bonds are ratably and equally secured by a pledge of the subordinated revenues and subordinate to the debt service payment of Senior Obligations of the Agency. The 2003 Tax Revenue Bonds are supported by two direct-pay letters of credit, which were to expire on August 27, 2009, but have been extended to November 27, 2010 (see Note III.E Subsequent Events).

The 2003 Tax Revenue Bonds have a variable rate of interest at a weekly rate, until converted to bear interest at another variable rate or fixed rate at the option of the Agency. The weekly rates are the rates that result in the market value of the bonds being equal to 100% of the outstanding principal and accrued interest. For the year ended June 30, 2009, the average weekly interest rate for the 2003 bonds was 0.30%.



**REDEVELOPMENT AGENCY OF  
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**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

***Housing Bonds***

The Merged Area Redevelopment Housing Set-Aside TAB, which are comprised of Series 1997E, Series 2003 J&K, Series 2005 A&B, and Series 2005 C&D, are equally and ratably secured by the pledge and lien of the 20% tax increment revenue set-aside for the low and moderate income housing fund. The total projected 20% tax increment revenue through the period of the bonds is approximately \$712,988,000. These revenues have been pledged until the year 2035, the final maturity date of the bonds. Debt service payment for these TABs is payable semi-annually on February 1 and August 1. The total principal and interest remaining on these Housing TABs is \$393,102,710, which is 55 percent of the total projected tax increment revenues. The pledged 20% tax increment revenue recognized during the fiscal year ended June 30, 2009 was \$40,469,184 as against the total debt service payment of \$20,501,048.

***Notes Payable - Housing Line of Credit***

During the year, the Agency drew down from a Line of Credit. The Line of Credit was entered into with a bank on March 1, 2003 in an amount not to exceed \$50,000,000. The bank agrees to provide the Agency an interim source of funding for the acquisition, construction or rehabilitation of low and moderate-income housing projects. The Line of Credit is secured by the 20% Housing Fund, which bears interest at annual rate of LIBOR plus spread of 0.75%. The Agency's total drawings during the year aggregated to \$50,000,000. The Line of Credit expired on April 1, 2009, and converted to a Term Loan. The entire principal amount of the Term Loan is being repaid in 20 equal quarterly installments and bears interest at annual rates ranging from LIBOR plus 1.35% to LIBOR plus 3.35%. As of June 30, 2009, the outstanding loan amounted to \$50,000,000.

***California Statewide Communities Development Authority (CSCDA) Educational Revenue Augmentation Fund (ERAF) Loan***

Over the years, the Agency has been sporadically required to make payment to the State of California's Educational Revenue Augmentation Fund (ERAF) through the County of Santa Clara. To finance the 2006 and 2005 ERAF payments, the Agency participated in the California Redevelopment Association/Educational Revenue Augmentation Fund (CRA/ERAF) Loan Program. As of June 30, 2009, the 2006 loan has a balance of \$11,390,000, bears a fix interest rate from 5.280% to 5.670%, and matures on August 1, 2016. The 2005 loan has a balance of \$12,590,000 as of June 30, 2009, bears a fix interest rate from 3.870% to 5.010%, and matures on August 1, 2015.

***City of San José Parking Fund Loan***

On April 12, 2005, the Agency entered into a loan agreement with the City of San Jose in an amount of \$6,800,000 from the future facilities reserve within the City's General Purpose Parking Fund. The Loan was received by the Agency from the City in 2 installments: \$3,400,000 on April 15, 2005, and \$3,400,000 on February 1, 2006. Interest on the loaned amounts originally accrued monthly on a compounded basis based on the City's investment Portfolio No.1's rate of return. The Agency used the loan proceeds for programs or projects contained in its Adopted Budget. On June 12, 2007, the City Council/Agency Board amended the term of the loan to extend the loan maturity date to July 31,

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2012, and removed the provision for any future interest beyond June 30, 2007, in exchange for the Agency promising to acquire property for a new downtown parking facility in the Almaden-Gateway Redevelopment Project Area.

***4<sup>th</sup> and San Fernando Streets Parking Facility***

In March 2001 the City of San Jose Financing Authority (the Authority) issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the 4<sup>th</sup> & San Fernando Parking Facility Project. The Agency entered into the Agency Pledge Agreement with the Authority, whereby Agency payments are payable from and secured by surplus Agency Revenues. Agency payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the garage. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution or indenture pursuant to which the outstanding tax allocation bonds were issued, plus (ii) all legally available revenues of the Agency. As of June 30, 2009, the Agency has an outstanding obligation, per Agency Pledge Agreement, of \$38,255,000.

***HUD Section 108 Loans***

In 1997, the Agency received loan proceeds of \$5,200,000 under the provisions of the U.S. Department of Housing and Urban Development (HUD) Section 108. The proceeds were used to finance the following downtown projects: Security Building, Bassler & Haynes and Beach Buildings (Eu Bldgs), and the Masson Building.

In 2006, the Agency received loan proceeds aggregating to \$31,000,000 under the provisions of the U.S. Department of Housing and Urban Development (HUD) Section 108 program. The proceeds were used to finance the CIM Mix-used Project (Central Place/Tower 88) in Downtown Project Area (\$13,000,000) and for reimbursement of costs incurred on the Story/King Retail Project (\$18,000,000).

As of June 30, 2009, the outstanding loans due to HUD aggregated to \$33,955,000. The notes payable to HUD mature annually through August 2025 and bear interest at 20 basis points above the LIBOR index. The HUD loans are secured by Agency's Capital Assets with an aggregate gross value of \$46,615,000 as of June 30, 2009, as further described in Note II-F, and CDBG grants that were awarded or will be awarded to the City.

***Debt Service Requirements***

The debt service requirements for all debt are based upon a fixed rate of interest, except the 1996 Series A and B Merged Area Revenue Bonds, 2003 Series A and B Merged Area Revenue Bonds, 2005 Series C and D Housing Bonds and HUD Section 108 loans, which bear interest at variable rates. Interest on the 1996 Series A and B Merged Area Revenue Bonds, 2003 Series A and B Merged Area Revenue Bonds, and the 2005 Series C and D Housing Bonds may be set at different interest rate calculation modes, including daily, monthly and fixed rates. On June 30, 2009, all the variable rate bonds were set in weekly modes. Interest on the HUD Section 108 loan is adjusted

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**Notes to the Basic Financial Statements (continued)  
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monthly, two days before the first day of each month to a variable interest rate equal to 20 basis points above the applicable LIBOR rate.

For purposes of calculating the annual debt service requirements for variable rate debt as of June 30, 2009, the following assumed effective rates have been used:

<u>Bond issues</u>	<u>Effective interest rate</u>
1996 Merged Area Revenue, Series A	0.11%
1996 Merged Area Revenue, Series B	0.15%
2003 Merged Area Revenue, Series A	0.42%
2003 Merged Area Revenue, Series B	0.17%
2005 Housing, Series C	0.24%
2005 Housing, Series D	0.30%
HUD Section 108 loan	0.87%

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding as of June 30, 2009, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Merged Tax Allocation Bonds		Housing Tax Allocation		Other Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 44,505	\$ 87,394	\$ 7,095	\$ 9,944	\$ 33,660	\$ 11,649	\$ 85,260	\$ 108,987
2011	46,730	85,050	7,370	9,721	29,122	10,903	83,222	105,674
2012	49,200	82,631	7,665	9,485	33,415	10,121	90,280	102,237
2013	51,590	80,095	7,975	9,229	36,485	9,289	96,050	98,613
2014	54,210	77,377	8,310	8,952	30,860	8,385	93,380	94,714
2015-2019	313,885	342,015	47,445	39,803	104,300	29,638	465,630	411,456
2020-2024	385,725	254,601	57,040	29,594	107,430	10,347	550,195	294,542
2025-2029	428,320	151,140	60,905	17,113	34,350	767	523,575	169,020
2030-2034	330,460	59,413	42,455	5,802	12,990	40	385,905	65,255
2035-2037	97,610	4,649	7,010	190	-	-	104,620	4,839
Total	<u>\$ 1,802,235</u>	<u>\$ 1,224,365</u>	<u>\$ 253,270</u>	<u>\$ 139,833</u>	<u>\$ 422,612</u>	<u>\$ 91,139</u>	<u>\$ 2,478,117</u>	<u>\$ 1,455,337</u>

***Variable-Rate Demand Bonds***

Included in long-term debt is \$166,715,000 of variable-rate demand bonds. The scheduled redemption of these bonds is incorporated in the Annual Requirements to Maturity schedules. The Agency issued these bonds to provide variable-rate exposure to the debt portfolio and to provide additional flexibility with respect to restructuring or redeeming the debt issued for certain projects. Under the reimbursement agreements related to these credit facilities, the trustee is authorized to draw an amount sufficient to pay the purchase price of bonds that have been tendered and have not otherwise been remarketed.

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The credit facilities that support the Agency's variable-rate demand bonds are as follows (amounts in thousands):

	Balance June 30, 2009	Credit Facility Description	
		Provider	Expiration Date
Redevelopment Agency:			
Revenue Bonds:			
Series 1996A (Merged Area)	\$ 25,800	JPMorgan Chase Bank, N.A.	10/27/2010*
Series 1996B (Merged Area)	25,800	JPMorgan Chase Bank, N.A.	10/27/2010*
Series 2003A (Taxable) (Merged Area)	41,600	JPMorgan Chase Bank, N.A.	8/27/2009*
Series 2003B (Merged Area)	<u>15,000</u>	JPMorgan Chase Bank, N.A.	8/27/2009*
Total variable rate revenue bonds	<u>108,200</u>		
Housing Set-Aside Tax Allocation Bonds:			
Series 2005C (AMT) (Merged Area)	29,255	Bank of New York Mellon	6/29/2010
Series 2005D (AMT) (Merged Area)	<u>29,260</u>	Bank of New York Mellon	6/29/2010
Total variable rate tax allocation bonds	<u>58,515</u>		
Total variable rate bonds	<u>\$ 166,715</u>		

\* The Agency extended the expiration date of these bonds subsequent to year end (see Note III.E - Subsequent Events).

***Redevelopment Agency Variable-Rate Revenue Bonds***

The Agency's \$108,200,000 variable-rate revenue bonds (1996 and 2003 Bonds) are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Agency's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Agency's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

In connection with the issuance of the 1996 and 2003 Bonds, the Agency obtained four letters of credit as credit facilities for the bonds. At June 30, 2009, the letters of credit were set to expire on October 27, 2010 and August 27, 2009, respectively. The Agency's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortized from the date of the draw to the expiration of the credit facility.

The Agency is required to pay the credit facility providers an annual commitment fee for each credit facility ranging from 0.45% to 0.60%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility.

As of June 30, 2009, the Agency reclassified \$5,300,000 of the Agency's 2003 Bonds to demand bonds payable based on an extension of the Letter of Credit (LOC) with JP Morgan Chase Bank, N.A.

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**Notes to the Basic Financial Statements (continued)  
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at a reduced maximum aggregate amount. As a condition of the LOC extension, the Agency is required to redeem \$5,300,000 of outstanding demand bonds within less than one year from June 30, 2009 at a price equal to principal plus accrued interest. As an additional condition of the extension, the Agency is required to pay the credit facility providers higher annual commitment fees for each credit facility ranging from 2.10% to 2.30%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility, as discussed in Note IV E; Subsequent Events.

***Redevelopment Agency Variable-Rate Housing Set-Aside Tax Allocation Bonds***

The Agency's \$58,515,000 variable-rate housing set-aside tax allocation bonds (2005 Bonds) are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Agency's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Agency's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

In connection with the issuance of the 2005 Bonds, the Agency obtained two letters of credit as credit facilities for the bonds. The letters of credit are set to expire on June 29, 2010. The Agency's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortized over a period of five years from the date of the drawing. The interest rate on and principal amortization schedule of an unreimbursed draw are determined by the take-out provisions of the applicable reimbursement agreement, which will remain in effect until all principal of an unreimbursed draw is amortized.

The Agency is required to pay the credit facility providers an annual commitment fee for each credit facility of 0.45%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility.

***Bond and Tax Increment Limitations***

On April 7, 2009, the City Council/Agency Board approved amendments to the Agency's Redevelopment Plans for the Merged Project Area increasing the tax increment limit from \$7.6 billion to \$15 billion and establishing a single limit of \$7.6 billion for the bonded indebtedness that may be outstanding at any one time. The additional tax increment revenues will provide additional capital to the Agency to continue to implement blight-eliminating projects in the City's redevelopment project areas.

On May 5, 2009, the City Council/Agency Board approved an amendment to the Agency's Redevelopment Plan for the Strong Neighborhoods Initiative (SNI) Redevelopment Project to authorize the collection of tax increment from a portion of the SNI project called Diridon Area. The tax increment collected from this area is included in the \$15 billion cap from the Merged Area.

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***Conduit Debt***

In April 1998 the Agency served as the conduit issuer of \$38,000,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance the acquisition and construction of a multifamily residential project in the Century Center Redevelopment Project Area. The bonds were issued for the purpose of expanding the community's supply of low to moderate-income housing. The Agency has no obligation for these bonds, as they will be payable solely from and secured to the extent provided in the indenture by a pledge of certain revenues and other amounts to be received by the Agency under the Loan Agreement. The developer has arranged for an irrevocable direct-pay letter of credit in favor of the trustee. These bonds were refunded in September 2007 and as of June 30, 2009, the outstanding balance was \$38,000,000, payable upon maturity in September 2047.

In August 1997 the Agency served as the conduit issuer of \$10,595,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance a multifamily rental housing project in the Japantown Redevelopment Project Area. The Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as a timely payment of principal and interest by the Government National Mortgage Association. The bonds were issued for the purpose of expanding the community's supply of low to moderate-income housing. Additionally, the loan is secured on a nonrecourse basis and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d) (4) of the National Housing Act. As of June 30, 2009, the outstanding balance was \$9,688,000.

**I. Net Assets/Fund Balances**

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, net of related debt* – This category groups all capital assets excluding Accumulated Redevelopment Project Costs into one component of net assets. These capital assets are reduced by the accumulated depreciation and the outstanding balances of outstanding bonds that are attributable to the acquisition, construction, or improvement of those assets. As of June 30, 2009, \$22,217,937 represents the net assets invested in capital assets, net of related debt.
- *Restricted Debt Service* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2009, the Agency's statement of net assets reported restricted net assets of \$87,136,053 for future debt service payment.
- *Unrestricted Net Assets (Deficit)* – This category represents net assets (deficit) of the Agency, not restricted for any project or other purpose. As of June 30, 2009, the deficit amounted to \$1,971,499,499.

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Fund balances consist of reserved and unreserved amounts. Reserved fund balance represents that portion of the fund balances which is not available for appropriation for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved fund balance, which is available for spending for future projects. In the budget, management has designated certain portions of fund balance to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or other capital projects.

As of June 30, 2009, reservations of fund balance are described below:

- *Long-term receivables* – to reflect the amount due from developers related to the HUD Section 108 loan. Such amounts do not represent available spendable resources.
- *Advances and deposits* - to reflect the amount due from other funds that are long-term in nature and amounts deposited with third parties. Such amounts do not represent available spendable resources.
- *Debt service* - to reflect the funds held by trustees or fiscal agents for future payment of bond principal, interest, and reserve accounts. These funds are legally restricted for repayment of debt.
- *Encumbrances* - to reflect the outstanding contractual obligations for which goods and services have not yet been received.

**III. OTHER INFORMATION**

**A. Contingencies**

***Risk Management***

The Agency is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities, workers' compensation, and unemployment claims for which the Agency carries commercial insurance policies. The insurance premiums are paid from the General Fund. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated using actuarial methods or other estimating techniques. The technique to estimate claims is based on many complex factors, such as inflation, changes in legal doctrines, past settlements, and damages awarded. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimated claims liability includes amounts of incremental claims adjustment expense related to specific claims and other claims adjustments expenses, if any, regardless of whether allocated to specific claims. During the past three years, there have been no instances where the amount of claim settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

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***Environmental Land Remediation Obligation***

As of June 30, 2009, the Agency implemented GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses the accounting and reporting of current and potential pollution remediation including contamination that an entity is subject to. A review of the Agency's property during the year reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses), except the Adobe property as discussed below. If in the future or when a land remediation obligation occurs to a property due to a change in the purpose (i.e. convert to housing or retail project), the Agency will prepare estimates and comply with the provisions of GASB 49.

In prior years, the Agency entered a Disposition and Development Agreement with Adobe Systems, Inc. for development of office towers and underground parking garage on land owned by the Agency in the downtown area. After the parking garage was in operation, it was found that water has been accumulating in the parking ground area. To prevent ground water intrusion, accumulation and contamination in the area, a permanent dewatering and ground water treatment and discharge system was installed that cleanses the water from volatile organic compounds prior to discharging to the Guadalupe River. To remedy the situation, to avoid costly annual maintenance, and to eliminate the discharging of water to the river, the Agency plans to divert the water and discharge it to the City's sewer drainage system. The cost of the project to divert the water is estimated at \$225,000 which has been recognized as a liability as of June 30, 2009. Although the Agency sold the land to Adobe during the year, it is still liable to remedy the property from water accumulation and contamination.

***Litigation/Unpaid Claims***

The Agency is subject to various other claims and from time to time is involved in lawsuits in which damages are sought. As litigation is subject to many uncertainties and as the outcome of litigated matters cannot be predicted with certainty, it is reasonably possible that some of these legal actions could be decided unfavorably against the Agency.

The balance of unpaid claims below represents the remaining amount of County settlement as discussed in Note III.D. Changes in the balances of unpaid claims liabilities during the past two years are as follows (in thousands):

	Fiscal Year	
	2009	2008
Unpaid claims, beginning of fiscal year	\$ 18,000	\$ 27,500
Incurred claims	-	-
Claims payment	(10,500)	(9,500)
Unpaid claims, end of fiscal year	\$ 7,500	\$ 18,000



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**B. Commitments**

*Capital Expenditure Projections*

On June 23, 2009, the Agency Board adopted the Operating and Capital Budgets for fiscal year 2009-2010. The fiscal year 2009-2010 budget shows a total spending of \$474 million. Of this amount, \$224 million is to be spent on capital expenditures, \$201 million for financing/non-project costs, \$24 million for operating expenditures and \$25 million for other obligated payments.

*Defined Contribution Retirement Plan*

In January 1995, the Agency Board adopted a defined contribution retirement plan, the Redevelopment Agency of the City of San José Retirement Plan (the Plan), which provides pension benefits for its employees. For eligible employees who contribute 3.5% of their annual base salary, the Agency contributes approximately 9.0%. Agency contributions are based on a formula taking into account employee annual base salary and length of service. The Agency's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. Agency contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the Agency's contribution requirement or to offset the plan's operating expenses. Three Agency employees are co-trustees of the Plan. The Agency contracts with an advisor to manage the Plan with all assets being held in trust by a third party custodian in the name of each of the Plan's participants. Each of the Plan's participants directs the investments of their separate account. The Agency Board must authorize changes to the Plan.

The total payroll in fiscal year 2008-2009 for the Agency's direct employees was \$9,450,865. Both the Agency and the participating employees made contributions to the Plan amounting to \$847,063 and \$323,032, respectively.

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*Leases*

A schedule by years of future minimum rental payments required under the Agency's non-cancelable operating leases for office facilities, business equipment, and land as of June 30, 2009, (net of income from subleases) is as follows (in thousands):

Year Ending June 30	Minimum payments
2010	\$ 3,187,774
2011	2,783,404
2012	2,670,975
2013	2,315,779
2014	2,237,818
2015-2019	3,215,140
2020-2021	182,895
Total	\$ 16,593,785

The total net rent expense for operating leases in fiscal year 2008-2009 was approximately \$4,064,769.

**C. Related Party Transactions with the City of San José**

*Amounts Received from and Payments to the City*

*Intergovernmental Revenue*

Annually, the City's Housing Department makes payments to the Agency for the repayment of debt service on the Housing Bonds, Series A through K. In fiscal year 2008-2009, the Agency received \$18,047,045 from the City to pay the principal and interest due on the housing bonds and line of credit.

In addition, the Agency received during the current fiscal year a total amount of \$20,285,973 from the City for the following: (1) City's lease payment of \$14,317,485 pursuant to the Second Amended and Restated Reimbursement Agreement for the 2001 Convention Center Refunded Bonds, (2) City's share on the funding of Agency's capital projects in the total amount of \$5,307,000, and (3) transfer of remaining available funds in the Small Business Loan Program of \$661,488.

*Payments to the City*

The Agency paid \$3,800,252 to the City from its General Fund for City support services (i.e. Mayor/Council, Office of Economic Development and Risk Management).

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

The Agency is required by the California Community Redevelopment Law to designate 20% of all incremental property tax revenues for low and moderate-income housing activities (the Special Revenue Fund). In addition, in fiscal year 1992, the Agency elected to designate 20% of County supplemental assessment revenues for those purposes. The City's Housing Department administers these designated funds. During fiscal year 2008-09, the Agency transferred to the City's Housing Department \$40,469,184 in tax increment set-aside.

Proceeds of drawdown aggregating to \$50,000,000 from Housing Line of Credit were transferred to the City's Housing Department to provide funding for the acquisition, construction or rehabilitation of low and moderate-income housing projects.

During the year, the Agency transferred a total amount of \$14,666,461 from its Capital Projects Fund to the City. This transfer represents (1) \$14,317,485 reimbursement to the City for the lease payment during the year pursuant to the Second Amended and Restated Reimbursement Agreement for the 2001 Convention Center Refunded Bonds, (2) \$347,999 payment to the City related to the City's offsetting lost property taxes from the San José Arena, and (3) \$977 interest payment to City on portion of Sewer Fund loans, which was repaid by the end of this fiscal year.

***Cooperation Agreements with the City***

The Agency entered into Cooperation Agreements to assist in funding various projects constructed on its behalf by the City and to reimburse the City for the actual salaries and fringe benefits of City employees who work under the supervision of the Agency's Executive Director or designee, as well as other City staff in providing support services to the Agency. These agreements state the Agency's commitment for a one-year period consistent with the Agency's capital and operating budgets and are renewed on an annual basis.

The agreements further call for the Agency to submit a Project Service Memorandum (PSM) to the appropriate City Department prior to the start of the construction project. Funds are transferred to the City to cover the costs of completing the project including reasonable related administrative costs. After a PSM is approved by the Agency and agreed upon by the City, the Agency has no additional obligation relating to the agreed costs of the project except as may be agreed to in writing by the Agency and City. Any surplus funds in the project account are returned to the Agency. The agreement also states that the Agency may cancel the project and any unused funds shall be returned by the City to the Agency.

The amounts paid for construction projects in connection with these Cooperation Agreements during fiscal year 2008-2009 totaled \$19,345,723.

***Other Agency and City transactions***

In June 2001 the Agency Board, in relation to Parkland Dedication Ordinance (PDO) and Park Impact Ordinance (PIO), adopted a resolution approving a Parkland In-Lieu Fee Low-Income Unit Voucher Program (Voucher Program) for the payment of subsidized parkland fees for low-income residential units by the Agency. On October 26, 2004, the Board extended the program

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

until December 31, 2005. Under the PDO/PIO, developers of new residential projects are required to dedicate parkland, construct improvements and/or pay equivalent in-lieu fees for neighborhood and community-serving parks. Developers of low-income residential units were issued a voucher from the City's Housing Department to present to the City's Building Division in lieu of the payment of parkland fees, required by PDO and PIO. The Agency would then reimburse the City's Parks Trust Fund in the amount of the voucher. As of June 30, 2009, the Agency paid a cumulative amount of \$22,343,000 to the City and owed the City \$8,111,800. On June 23, 2009, the Agency and the City entered a cooperation agreement whereby the Agency agreed to transfer the amounts owed to the City in three annual installments as follows: \$2,300,000 in fiscal year 2009-10, \$1,311,800 in fiscal year 2010-11, and \$4,500,000 in fiscal year 2011-12.

In the past, the Agency advanced a portion of a loan made by the City's Housing Department to a third party providing shelter for women. The advance is recorded at its net realizable value of \$580,362 and will be repaid when the loan is collected by the City's Housing Department.

As part of the pledge agreement between the Agency and the City of San Jose Financing Authority on the 4<sup>th</sup>/San Fernando Garage Parking Revenue Bond - Series 2002A, the Agency paid, during the year, the total amount of \$3,363,714 representing principal and interest due on the bonds in the subsequent year.

In accordance with the cooperation agreement between the Agency and the City, the Agency funded the housing loans of two City senior officers who are on loan to the Agency in the amount of \$250,000 each, as part of their City's employment benefits to attract the most talented and experienced senior officials from around the country and reside in San Jose. The term of the loan is 30 years and repayments are made monthly on interest (3.481% - 4.520%) only. The principal balance of the loan is due in 30 years or within six months of the sale of the property or the employee's termination with the City or on default of the loan. As of June 30, 2009, the total advances made by the Agency aggregated to \$500,000.

**D. Tax Sharing Agreement and Other Payments to the County of Santa Clara**

In 1983, the Agency and the County of Santa Clara (the County) entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project Area (the County Pass-Through Payment). On December 16, 1993, the Agency, the County, and the City entered into a Settlement Agreement, which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City, and the Agency approved an Amended and Restated Agreement (the "Amended Agreement"). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires the Agency to transfer funds to the County to pay for such projects in an amount of 20% of the proceeds of any bonds secured by 80% tax increment (excludes refinancing bonds) (the "Delegated Payment").

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

In August 2004 the City and the Agency filed a lawsuit seeking a judicial determination as to whether the County had breached an agreement entered into among the parties in May 2001 (the 2001 Agreement). In April 2005 the County filed a cross complaint against the City and the Agency alleging, among other things, breach of the 2001 Agreement, breach of the 2001 Agreement's implied covenant of good faith and fair dealing, and intentional interference with prospective economic relations.

In February 2006 the San Mateo Superior Court granted County's motion for Summary Judgment holding that the County had not breached the 2001 Agreement. Subsequently, the City, the Agency and the County settled the lawsuit. Under the terms of the settlement, the Agency agreed to pay the \$22.5 million in three installments of \$7.5 million over a three-year period. The final installment payment was made on July 1, 2009.

For the fiscal year 2008-2009, the Pass-Through amount totaled \$21,337,000 and the Delegated Payment was \$16,832,000. In addition, the Agency paid \$1,888,000 in County administration fees, \$9,000 in AB 1389 Service fee, and \$7,500,000 in litigation settlement.

**E. Subsequent events**

***Supplemental Educational Revenue Augmentation Funds (SERAF)***

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county Supplemental Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$62.2 million in fiscal year 2009-2010 and \$12.8 million in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to AB 26x 4, the Agency will attempt to renegotiate the tax sharing and other payment agreements with the County of Santa Clara by deferring payments for the next three years and negotiate with the City in obtaining a loan from the Housing 20% Set-aside Funds.

On October 20, 2009, the California Redevelopment Association (CRA) together with two redevelopment agencies have filed a lawsuit in Sacramento Superior Court challenging the constitutionality of AB 26x 4. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (continued)  
June 30, 2009**

*Letters of Credit*

The principal and interest payment of the 1996 Merged Area Revenue Bonds and 2003 Merged Area Revenue Bonds are supported by the Letters of Credit under a Reimbursement Agreement with JPMorgan Chase Bank. The Letters of Credit were set to expire on October 31, 2010, and August 27, 2009, for the 1996 Bonds and 2003 Bonds, respectively. Failure to extend or replace the Letters of Credit would require the Agency to redeem the bonds upon the expiration date of the Letters of Credit.

To avoid the need to redeem the 2003 Bonds on November 27, 2009, the Bank has agreed to extend the 2003 Letters of Credit to November 26, 2010, and to extend the 1996 Letters of Credit to the same date, under the terms of an Amendment to Reimbursement Agreements that amend both the 2003 and 1996 Reimbursement Agreements. The Amendment to Reimbursement Agreements includes the following basic terms:

1. The annual fee for the 2003 Letters of Credit will increase from 1.50% times the outstanding Letters of Credit amount to 2.30% subject to an increase of 0.15% for each downgrade of the Agency' senior tax allocation bond rating by either Moody's or Standard and Poor's.
2. The annual fee with respect to the 1996 Letters of Credit will increase from 0.45% to 2.10% times the outstanding Letters of Credit subject to an increase of 0.15% for each Rating Downgrade Event.
3. The Agency must reduce, by November 27, 2009, the aggregate amount of the 2003 Bonds and 1996 Bonds to no more than \$100 million. The Agency will direct the Bond Trustee of the bonds to redeem \$5.3 million of the 1996 Bonds (The \$5.3 million has been recognized by the Agency as short-term obligation in the governmental funds in the current fiscal year as Variable-Rate Demand Bonds).



Art Ark Affordable Housing



Guadalupe River Park & Gardens

## OTHER REQUIRED SUPPLEMENTARY INFORMATION





**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual on a Budgetary Basis - General Fund  
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts	Budgetary to GAAP	Actual Amounts
	Original	Final	Variance with Final Budget Positive/(Negative)	Budgetary Basis	Differences	GAAP Basis
<b>Revenues:</b>						
Investment income	\$ 200,000	\$ 200,000	\$ (170,251)	\$ 29,749	\$ -	\$ 29,749
Rent	700,000	700,000	51,966	751,966	-	751,966
Other	300,000	300,000	14,275	314,275	-	314,275
Total revenues	<u>1,200,000</u>	<u>1,200,000</u>	<u>(104,010)</u>	<u>1,095,990</u>	<u>-</u>	<u>1,095,990</u>
<b>Expenditures:</b>						
<b>Current:</b>						
General government:						
Personnel services	3,953,490	3,974,915	261,886	3,713,029	-	3,713,029
Non-personnel services	427,291	427,291	150,773	276,518	(112,391)	164,127
<b>Intergovernmental:</b>						
Payments to the City of San José	<u>3,922,281</u>	<u>3,922,281</u>	<u>122,029</u>	<u>3,800,252</u>	<u>-</u>	<u>3,800,252</u>
Total expenditures	<u>8,303,062</u>	<u>8,324,487</u>	<u>534,688</u>	<u>7,789,799</u>	<u>(112,391)</u>	<u>7,677,408</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(7,103,062)	(7,124,487)	430,678	(6,693,809)	112,391	(6,581,418)
<b>Other financing sources (uses):</b>						
Transfers in	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
<b>Net change in fund balance</b>	(6,603,062)	(6,624,487)	430,678	(6,193,809)	112,391	(6,081,418)
<b>Fund balance, beginning of year</b>	<u>7,119,883</u>	<u>7,119,883</u>	<u>-</u>	<u>7,119,883</u>	<u>-</u>	<u>7,119,883</u>
<b>Fund balance, end of year</b>	<u>\$ 516,821</u>	<u>\$ 495,396</u>	<u>\$ 430,678</u>	<u>\$ 926,074</u>	<u>\$ 112,391</u>	<u>\$ 1,038,465</u>

See Accompanying Notes to Other Required Supplementary Information

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual on a Budgetary Basis - Special Revenue Fund  
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget	Actual Amounts Budgetary Basis	Budgetary to GAAP	Actual Amounts
	Original	Final	Positive/(Negative)		Differences	GAAP Basis
<b>Revenues:</b>						
Tax increment	\$ 38,510,316	\$ 40,469,184	\$ -	\$ 40,469,184	\$ -	\$ 40,469,184
<b>Expenditures:</b>						
<b>Intergovernmental:</b>						
Payments to the City of San José	38,510,316	40,469,184	-	40,469,184	-	40,469,184
<b>Net change in fund balance</b>	-	-	-	-	-	-
<b>Fund balance, beginning of year</b>	-	-	-	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to Other Required Supplementary Information

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to Other Required Supplementary Information  
June 30, 2009**

**STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budget Information**

The budget of the Agency is an operating plan that identifies estimated costs and results in relation to estimated revenues. Budgets are prepared according to the following guidelines for the General and Special Revenue Funds:

*General Fund*

The operating expenditures are budgeted by appropriation according to type of expenditures, categorized as personnel and non-personnel.

*Special Revenue Fund*

Twenty percent of the tax increment revenues are budgeted by the Board for payment to the low and moderate-income housing program of the City of San Jose.

During the fiscal year, the procedures followed to establish the budgetary data reflected in the accompanying budget to actual schedules were as follows:

*Original Budget*

Prior to the beginning of the fiscal year, the Executive Director of the Agency presents to the Board the fiscal budget for the ensuing year, both operating and capital budget. After the tax revenue data is available in July - August from the County Assessor, an amended budget is submitted to the Board in October - November for approval in November - December.

The budget is prepared on a budgetary basis, which does not conform with GAAP, as encumbrances are included as expenditures. Revenue estimates are presented to the Agency Board in total and are approved by revenue resolution.

Prior to June 30 of each year, the annual budget is finalized through passage of the annual appropriation resolution and an annual revenue resolution by the Agency Board, which is the legal authority for enactment of the budget. Management allocates budgeted revenue to the Special Revenue Fund based on priorities established by the California Community Redevelopment Law, bond indentures, and other legal agreements.

The annual appropriation resolution adopts the expenditure budget at the appropriation level (project, personnel, and non-personnel). Accordingly, the lowest level of budgetary control exercised by the Agency Board is the appropriation level. Management can transfer budgeted amounts between project activities included in each appropriation without the approval of the Agency's Board.

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to Other Required Supplementary Information  
June 30, 2009**

*Final Budget*

Supplemental appropriations may be approved during the budget year if there are funds available in the capital reserve. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered. No expenditures may be made in excess of amounts appropriated by the Agency Board.

The Agency Board approves changes to the revenue estimates by adoption of a supplemental revenue resolution. The budgetary data presented in the accompanying budget to actual schedules includes all revisions approved by the Agency Board.

**B. Budgetary Results Reconciled To GAAP**

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The only difference between the budgetary basis actual and GAAP basis is that the year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis schedules, while encumbered amounts are not recognized as expenditures on the GAAP basis statements until recorded as actual expenditures.



Rendering of North San Jose in the Future



Adobe Systems Headquarters

## OTHER SUPPLEMENTARY INFORMATION



**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual on a Budgetary Basis - Housing Debt Service Fund  
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Actual Amounts Budgetary	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Budgetary Basis Variance with Final Budget Positive/(Negative)			
<b>Revenues:</b>						
Intergovernmental	\$ 18,047,045	\$ 18,047,045	\$ -	\$ 18,047,045	\$ -	\$ 18,047,045
Investment income	-	34,772	-	34,772	-	34,772
Other	-	-	-	-	-	-
Total revenues	<u>18,047,045</u>	<u>18,081,817</u>	<u>-</u>	<u>18,081,817</u>	<u>-</u>	<u>18,081,817</u>
<b>Expenditures:</b>						
<b>Intergovernmental:</b>						
Payments to the City of San José	-	50,000,000	-	50,000,000	-	50,000,000
<b>Debt service:</b>						
Principal repayment	9,405,000	9,405,000	-	9,405,000	-	9,405,000
Interest and other charges	<u>11,096,048</u>	<u>11,096,048</u>	<u>-</u>	<u>11,096,048</u>	<u>-</u>	<u>11,096,048</u>
Total expenditures	<u>20,501,048</u>	<u>70,501,048</u>	<u>-</u>	<u>70,501,048</u>	<u>-</u>	<u>70,501,048</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(2,454,003)</u>	<u>(52,419,231)</u>	<u>-</u>	<u>(52,419,231)</u>	<u>-</u>	<u>(52,419,231)</u>
<b>Other financing sources (uses):</b>						
Other Loan Proceeds	-	50,000,000	-	50,000,000	-	50,000,000
Total other financing sources	<u>-</u>	<u>50,000,000</u>	<u>-</u>	<u>50,000,000</u>	<u>-</u>	<u>50,000,000</u>
<b>Net change in fund balance</b>	<u>(2,454,003)</u>	<u>(2,419,231)</u>	<u>-</u>	<u>(2,419,231)</u>	<u>-</u>	<u>(2,419,231)</u>
<b>Fund balance, beginning of year</b>	<u>2,834,173</u>	<u>2,834,173</u>	<u>-</u>	<u>2,834,173</u>	<u>-</u>	<u>2,834,173</u>
<b>Fund balance, end of year</b>	<u>\$ 380,170</u>	<u>\$ 414,942</u>	<u>\$ -</u>	<u>\$ 414,942</u>	<u>\$ -</u>	<u>\$ 414,942</u>

See Accompanying Notes to Other Required Supplementary Information

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual on a Budgetary Basis - Merged Debt Service Fund  
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Positive/(Negative)			
<b>Revenues:</b>						
Tax increment	\$ 154,041,263	\$ 121,164,089	\$ (69,067)	\$ 121,095,022	\$ -	\$ 121,095,022
Investment income	1,034,880	1,333,615	(86,583)	1,247,032	-	1,247,032
Total revenues	<u>155,076,143</u>	<u>122,497,704</u>	<u>(155,650)</u>	<u>122,342,054</u>	<u>-</u>	<u>122,342,054</u>
<b>Expenditures:</b>						
<b>Debt service:</b>						
Principal repayment	45,720,000	45,720,000	-	45,720,000	-	45,720,000
Interest and other charges	97,407,868	97,407,868	-	97,407,868	-	97,407,868
Bond issuance costs	1,453,346	1,453,346	-	1,453,346	-	1,453,346
Total expenditures	<u>144,581,214</u>	<u>144,581,214</u>	<u>-</u>	<u>144,581,214</u>	<u>-</u>	<u>144,581,214</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>10,494,929</u>	<u>(22,083,510)</u>	<u>(155,650)</u>	<u>(22,239,160)</u>	<u>-</u>	<u>(22,239,160)</u>
<b>Other financing sources (uses):</b>						
Tax allocation bonds issued	-	55,938,600	-	55,938,600	-	55,938,600
Bond issue discount		(1,347,995)	-	(1,347,995)	-	(1,347,995)
Transfers in	30,545,665	30,545,665	-	30,545,665	-	30,545,665
Total other financing sources	<u>30,545,665</u>	<u>85,136,270</u>	<u>-</u>	<u>85,136,270</u>	<u>-</u>	<u>85,136,270</u>
<b>Net change in fund balance</b>	<u>41,040,594</u>	<u>63,052,760</u>	<u>(155,650)</u>	<u>62,897,110</u>	<u>-</u>	<u>62,897,110</u>
<b>Fund balance, beginning of year</b>	<u>90,086,822</u>	<u>90,086,822</u>	<u>-</u>	<u>90,086,822</u>	<u>-</u>	<u>90,086,822</u>
<b>Fund balance, end of year</b>	<u>\$ 131,127,416</u>	<u>\$ 153,139,582</u>	<u>\$ (155,650)</u>	<u>\$ 152,983,932</u>	<u>\$ -</u>	<u>\$ 152,983,932</u>

See Accompanying Notes to Other Required Supplementary Information



**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual on a Budgetary Basis - Capital Projects Fund  
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Actual	Budgetary to GAAP Differences	Actual
	Original	Final	Budgetary Basis	Amounts		Amounts
			Variance with Final Budget Positive/(Negative)	Budgetary Basis		GAAP Basis
<b>Revenues:</b>						
Tax increment	\$ -	\$ 40,009,038	\$ 772,678	\$ 40,781,716	\$ -	\$ 40,781,716
Intergovernmental	20,285,973	20,285,973	-	20,285,973	-	20,285,973
Investment income	3,742,360	5,410,605	(1,587,794)	3,822,811	-	3,822,811
Rent	1,562,914	467,688	97,282	564,970	-	564,970
Developers contribution	150,000	162,000	835,931	997,931	-	997,931
Collection of loans	143,452	1,046,958	(634,425)	412,533	-	412,533
Grant revenue	235,000	768,500	(698,209)	70,291	-	70,291
Other	2,443,528	9,900,402	(6,931,826)	2,968,576	-	2,968,576
Total revenues	<u>28,563,227</u>	<u>78,051,164</u>	<u>(8,146,363)</u>	<u>69,904,801</u>	<u>-</u>	<u>69,904,801</u>
<b>Expenditures:</b>						
<b>Current:</b>						
General government:						
Personnel services	9,174,154	10,229,260	1,411,685	8,817,575	-	8,817,575
Non-personnel services	3,407,863	3,664,080	565,475	3,098,605	(656,510)	2,442,095
<b>Intergovernmental:</b>						
Payments to the City of San José	14,666,461	14,666,461	-	14,666,461	-	14,666,461
Payments to the County of Santa Clara	23,234,512	23,234,512	-	23,234,512	-	23,234,512
Payments to other governmental agencies	3,374,324	3,374,324	-	3,374,324	-	3,374,324
<b>Capital outlay:</b>						
Project expenditures	169,495,196	189,581,655	90,581,115	99,000,540	(44,206,763)	54,793,777
Payments to the City of San José	19,345,723	19,345,723	-	19,345,723	-	19,345,723
Payments to the County of Santa Clara	24,332,261	24,332,261	-	24,332,261	-	24,332,261
Total expenditures	<u>267,030,494</u>	<u>288,428,276</u>	<u>92,558,275</u>	<u>195,870,001</u>	<u>(44,863,273)</u>	<u>151,006,728</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(238,467,267)</u>	<u>(210,377,112)</u>	<u>84,411,912</u>	<u>(125,965,200)</u>	<u>44,863,273</u>	<u>(81,101,927)</u>
<b>Other financing sources (uses):</b>						
Tax allocation bonds issued	70,000,000	84,161,304	(22,804,904)	61,356,400	-	61,356,400
Reclassification of short-term variable rate demand bonds	-	-	-	-	(5,300,000)	(5,300,000)
Proceeds from sale of capital assets	13,011,000	9,720,756	(1,355,789)	8,364,967	-	8,364,967
Transfers out	(31,045,665)	(31,045,665)	-	(31,045,665)	-	(31,045,665)
Total other financing sources	<u>51,965,335</u>	<u>62,836,395</u>	<u>(24,160,693)</u>	<u>38,675,702</u>	<u>(5,300,000)</u>	<u>33,375,702</u>
<b>Net change in fund balance</b>	<u>(186,501,932)</u>	<u>(147,540,717)</u>	<u>60,251,219</u>	<u>(87,289,498)</u>	<u>39,563,273</u>	<u>(47,726,225)</u>
<b>Fund balance, beginning of year</b>	<u>122,030,788</u>	<u>122,030,788</u>	<u>-</u>	<u>122,030,788</u>	<u>-</u>	<u>122,030,788</u>
<b>Fund balance, end of year</b>	<u>\$ (64,471,144)</u>	<u>\$ (25,509,929)</u>	<u>\$ 60,251,219</u>	<u>\$ 34,741,290</u>	<u>\$ 39,563,273</u>	<u>\$ 74,304,563</u>

See Accompanying Notes to Other Required Supplementary Information

**REDEVELOPMENT AGENCY OF  
THE CITY OF SAN JOSE**

**Notes to the Supplementary Information  
June 30, 2009**

**STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budget Information**

The budget process for the Housing Debt Service Fund, Merged Debt Service Fund, and Capital Projects Fund followed the same procedures to establish the budgetary data for the General Fund and Special Revenue Fund, which can be found in the Notes to Other Required Supplementary Information on pages 72-73.

*Housing and Merged Debt Service Funds*

Expenditures are budgeted according to bond indenture requirements. Appropriations for Housing and Merged Debt Service Funds were implicitly adopted by the Agency Board when the formal bond resolutions were approved.

*Capital Projects Fund*

Capital Projects Fund expenditures are budgeted by project, on a project-length basis. Annual appropriations include items such as direct project payments, land acquisition, payments to the City under cooperation agreements, and other expenditures.

**B. Budgetary Results Reconciled To GAAP**

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget and actual comparison schedule in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major difference between the budgetary basis actual and GAAP basis is that the year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis basic financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until recorded as actual expenditures. In addition, certain expenditures recorded for GAAP purposes may be budgeted in a different fiscal year.



Sainte Claire Hotel Renovation



Plaza de San José

## STATISTICAL SECTION



REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE  
DESCRIPTION OF THE STATISTICAL SCHEDULES  
JUNE 30, 2009

This part of the Agency’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and the required supplementary information says about the Agency’s overall financial health.

Contents	Table	Page
<p>Financial Trends</p> <p>These schedules contain trend information to help the reader understand how the Agency’s financial performance and well-being have changed over time.</p>	1 – 4	81 – 84
<p>Revenue Capacity</p> <p>These schedules contain information to help the reader assess the Agency’s tax increment revenue source.</p>	5 – 6	85 – 86
<p>Debt Capacity</p> <p>These schedules present information to help the reader assess the affordability of the Agency’s current level of outstanding debt.</p>	7 – 11	87 – 91
<p>Demographic and Economic Information</p> <p>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Agency’s financial activities take place.</p>	12 – 14	92 – 94
<p>Operating Information</p> <p>These schedules contain service data to help the reader understand how the information in the Agency’s financial report relates to the services the Agency’s provides and the activities it performs.</p>	15 – 16	95 - 96

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant years.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Table 1

Net Assets (deficit) by Component  
 Governmental Activities  
 Last Eight Fiscal Years  
 (accrual basis of accounting)  
 (dollars expressed in thousands)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Governmental activities								
Invested in capital assets, net of related debt	\$ 6,375	\$ 6,125	\$ 7,008	\$ 6,831	\$ 40,455	\$ 27,652	\$ 23,212	\$ 22,218
Restricted for:								
Debt Service	50,734	58,109	37,849	43,734	41,947	34,866	49,005	87,136
Low and moderate housing income housing activities	42,470	351	191	35,298	15,333	-	-	-
Other	21,116	22,021	-	-	-	-	-	-
Unrestricted deficit	<u>(1,221,108)</u>	<u>(1,389,801)</u>	<u>(1,488,094)</u>	<u>(1,626,222)</u>	<u>(1,747,045)</u>	<u>(1,797,715)</u>	<u>(1,842,321)</u>	<u>(1,971,500)</u>
Total governmental activities net assets (deficit)	<u><u>\$ (1,100,413)</u></u>	<u><u>\$ (1,303,195)</u></u>	<u><u>\$ (1,443,046)</u></u>	<u><u>\$ (1,540,359)</u></u>	<u><u>\$ (1,649,310)</u></u>	<u><u>\$ (1,735,197)</u></u>	<u><u>\$ (1,770,104)</u></u>	<u><u>\$ (1,862,146)</u></u>

Note: The Agency initially implemented GASB reporting model in fiscal year 2001-2002. Since GASB 34 changes significantly both the recording and presentation of financial data, fiscal years prior to 2002 have not been restated for the purpose of providing the required 10-year comparative information for the above schedule.

Source: Redevelopment Agency of the City of San Jose

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Table 2

Changes in Net Assets  
Governmental Activities  
(accrual basis of accounting)  
Last Eight Fiscal Years  
(dollars expressed in thousands)

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>Expenses</b>								
General government	\$ 25,064	\$ 26,903	\$ 22,269	\$ 8,498	\$ 6,910	\$ 5,755	\$ 7,002	\$ 7,677
Community development	232,048	334,344	181,384	134,001	147,052	167,508	112,532	135,237
Housing	65,521	82,227	61,679	60,545	50,881	32,364	50,843	90,469
Debt Service	86,245	92,895	94,084	91,512	96,989	92,964	108,287	110,587
Total governmental activities expenses	<u>408,878</u>	<u>536,369</u>	<u>359,416</u>	<u>294,556</u>	<u>301,832</u>	<u>298,591</u>	<u>278,664</u>	<u>343,970</u>
<b>Program revenues</b>								
Operating grants and contributions								
Community development	13,113	13,352	12,704	13,019	13,326	13,973	14,303	14,330
Housing	9,953	11,741	11,468	14,528	12,867	18,583	18,647	17,689
Capital grants and contribution								
Community development	48,358	97,690	18,114	5,749	4,457	4,429	4,306	6,384
Total program revenues	<u>71,424</u>	<u>122,783</u>	<u>42,286</u>	<u>33,296</u>	<u>30,650</u>	<u>36,985</u>	<u>37,256</u>	<u>38,403</u>
Net program expenses	<u>(337,454)</u>	<u>(413,586)</u>	<u>(317,130)</u>	<u>(261,260)</u>	<u>(271,182)</u>	<u>(261,606)</u>	<u>(241,408)</u>	<u>(305,567)</u>
<b>General revenues</b>								
Tax increment	188,459	198,026	170,208	149,977	149,819	161,819	184,942	202,346
Unrestricted investment earnings	14,155	7,513	4,331	6,029	6,043	7,655	9,536	5,134
Developers contribution	215	-	-	4,435	-	-	5,491	998
Miscellaneous	6,626	5,265	2,740	3,505	6,369	6,245	6,532	5,048
Total general revenues	<u>209,455</u>	<u>210,804</u>	<u>177,279</u>	<u>163,946</u>	<u>162,231</u>	<u>175,719</u>	<u>206,501</u>	<u>213,526</u>
<b>Changes in net assets</b>	<u>\$ (127,999)</u>	<u>\$ (202,782)</u>	<u>\$ (139,851)</u>	<u>\$ (97,314)</u>	<u>\$ (108,951)</u>	<u>\$ (85,887)</u>	<u>\$ (34,907)</u>	<u>\$ (92,041)</u>

Note: The Agency implemented new reporting model under GASB 34 in fiscal year 2001-2002. Since GASB 34 changes significantly both the recording and presentation of financial data, fiscal years prior to 2002 have not been restated for the purpose of providing the required 10-year comparative information for the above schedule.

Source: Redevelopment Agency of the City of San Jose

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)  
(dollars expressed in thousands)

Table 3

	FISCAL YEAR									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>General fund</b>										
Reserved for:										
Advances and deposits	\$ -	\$ 39	\$ 43	\$ 44	\$ 42	\$ 39	\$ 39	\$ 289	\$ 289	\$ 539
Encumbrances	1,365	2,207	2,230	1,486	1,420	187	188	74	150	112
Unreserved, designated for redevelopment activities	<u>3,275</u>	<u>1,962</u>	<u>520</u>	<u>3,719</u>	<u>5,243</u>	<u>7</u>	<u>903</u>	<u>1,404</u>	<u>6,681</u>	<u>387</u>
Total general fund	<u>4,640</u>	<u>4,208</u>	<u>2,793</u>	<u>5,249</u>	<u>6,705</u>	<u>233</u>	<u>1,130</u>	<u>1,767</u>	<u>7,120</u>	<u>1,038</u>
<b>All other governmental funds</b>										
Reserved for:										
Long-term receivables	4,402	3,714	3,554	3,384	3,267	3,053	2,858	4,037	3,880	3,655
Advances and deposits	580	601	601	601	601	601	1,206	801	601	601
Debt service	49,506	49,981	87,631	94,185	76,546	78,869	79,668	73,500	90,087	130,179
Low and moderate income housing activities	1,610	679	42,470	351	191	35,298	15,333	16,115	2,834	415
Grants with purpose restrictions	-	20,171	21,116	22,021	-	-	-	-	-	-
Encumbrances	58,037	87,726	104,753	63,691	37,387	31,869	27,740	28,970	26,770	44,863
Unreserved, designated for redevelopment activities	<u>181,056</u>	<u>7,261</u>	<u>137,196</u>	<u>8,747</u>	<u>138,864</u>	<u>82,746</u>	<u>6,543</u>	<u>3,619</u>	<u>90,780</u>	<u>47,991</u>
Total all other governmental funds	<u>295,191</u>	<u>170,133</u>	<u>397,321</u>	<u>192,980</u>	<u>256,856</u>	<u>232,436</u>	<u>133,348</u>	<u>127,042</u>	<u>214,952</u>	<u>227,704</u>
Total fund balances of governmental funds	<u>\$ 299,831</u>	<u>\$ 174,341</u>	<u>\$ 400,114</u>	<u>\$ 198,229</u>	<u>\$ 263,561</u>	<u>\$ 232,669</u>	<u>\$ 134,478</u>	<u>\$ 128,809</u>	<u>\$ 222,072</u>	<u>\$ 228,742</u>

Source: Redevelopment Agency of the City of San Jose



**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
 Changes in Fund Balances of Governmental Funds  
 Last Ten Fiscal Years  
 (modified accrual basis of accounting)  
 (dollars expressed in thousands)

Table 4

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Revenues</b>										
Tax increment	\$ 129,681	\$ 142,151	\$ 188,459	\$ 198,026	\$ 170,208	\$ 149,977	\$ 149,819	\$ 161,819	\$ 184,942	\$ 202,346
Intergovernmental	-	30,581	42,311	94,482	38,407	32,276	26,620	34,762	35,697	38,333
Investment income	18,731	16,087	14,155	7,513	4,331	6,029	6,043	7,655	9,536	5,134
Rent	676	553	420	988	998	1,251	981	1,022	1,834	1,317
Developer contributions	4,641	13,703	29,630	27,949	2,148	-	-	-	9,133	998
Grant revenue	1,107	20,207	-	35	1,731	1,020	4,030	2,223	1,559	71
Other	2,892	11,469	6,206	6,848	1,896	11,298	3,785	3,969	4,514	3,695
Total revenue	<u>157,728</u>	<u>234,751</u>	<u>281,181</u>	<u>335,841</u>	<u>219,719</u>	<u>201,851</u>	<u>191,278</u>	<u>211,450</u>	<u>247,215</u>	<u>251,894</u>
<b>Expenditures</b>										
General government	18,652	16,867	18,622	19,864	16,538	14,761	14,059	12,499	14,021	15,137
Intergovernmental	37,370	109,415	105,824	129,445	118,732	111,532	96,584	66,248	89,630	135,545
Debt service:										
Principal repayment	17,975	22,450	24,445	28,125	33,860	31,265	41,610	43,810	43,815	55,125
Interest and other charges	78,512	77,580	75,332	93,710	91,529	94,603	93,985	91,759	105,728	108,504
Payments to refunded bond escrow agent	-	-	6,429	-	11,952	2,022	6,945	13,013	-	-
Bond issuance costs	-	1,070	9,768	-	8,868	3,977	5,539	19,286	3,694	1,453
Capital outlay	111,631	179,866	239,945	266,900	107,533	70,916	96,777	78,023	119,236	98,472
Other	359	-	-	-	-	-	-	-	-	-
Total expenditures	<u>264,499</u>	<u>407,248</u>	<u>480,365</u>	<u>538,044</u>	<u>389,012</u>	<u>329,076</u>	<u>355,499</u>	<u>324,638</u>	<u>376,124</u>	<u>414,236</u>
Deficiency of revenues under expenditures	<u>(106,771)</u>	<u>(172,497)</u>	<u>(199,184)</u>	<u>(202,203)</u>	<u>(169,293)</u>	<u>(127,225)</u>	<u>(164,221)</u>	<u>(113,188)</u>	<u>(128,909)</u>	<u>(162,342)</u>
<b>Other financing sources (uses)</b>										
Tax Allocation Bonds issued	-	44,205	614,383	-	545,985	218,355	269,400	782,485	212,930	117,295
Advances from City of San Jose - parkland fees	-	-	-	-	-	-	-	-	8,112	-
Discount on tax allocation bonds	-	-	(189)	-	-	-	-	-	-	(1,348)
Premium on bonds issued	-	-	-	-	16,725	395	17,191	29,157	1,129	-
Payment to refunded bond escrow agent	-	-	(189,651)	-	(332,571)	(126,899)	(232,010)	(712,615)	-	-
Proceeds from the sale of capital assets	2,450	2,802	-	317	4,486	4,482	11,449	8,491	-	8,365
Other loan proceeds	-	-	-	-	-	-	-	-	-	50,000
Reclassification of short-term variable rate demand bonds	-	-	-	-	-	-	-	-	-	(5,300)
Transfers in	35,492	36,335	42,440	45,238	65,091	21,759	39,009	36,608	42,629	31,046
Transfers out	<u>(35,492)</u>	<u>(36,335)</u>	<u>(42,440)</u>	<u>(45,238)</u>	<u>(65,091)</u>	<u>(21,759)</u>	<u>(39,009)</u>	<u>(36,608)</u>	<u>(42,629)</u>	<u>(31,046)</u>
Total other financing sources (uses)	<u>2,450</u>	<u>47,007</u>	<u>424,543</u>	<u>317</u>	<u>234,625</u>	<u>96,333</u>	<u>66,030</u>	<u>107,518</u>	<u>222,171</u>	<u>169,012</u>
<b>Net change in fund balance</b>	<u>\$ (104,321)</u>	<u>\$ (125,490)</u>	<u>\$ 225,359</u>	<u>\$ (201,886)</u>	<u>\$ 65,332</u>	<u>\$ (30,892)</u>	<u>\$ (98,191)</u>	<u>\$ (5,670)</u>	<u>\$ 93,262</u>	<u>\$ 6,670</u>
<b>Debt service as a percentage of non capital expenditures</b>	<u>46.3%</u>	<u>29.8%</u>	<u>26.6%</u>	<u>27.6%</u>	<u>38.6%</u>	<u>41.7%</u>	<u>40.1%</u>	<u>43.4%</u>	<u>45.2%</u>	<u>41.6%</u>

Source: Redevelopment Agency of the City of San Jose

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Actual Assessed Value and Tax Increment Revenue

Merged Area Redevelopment Project

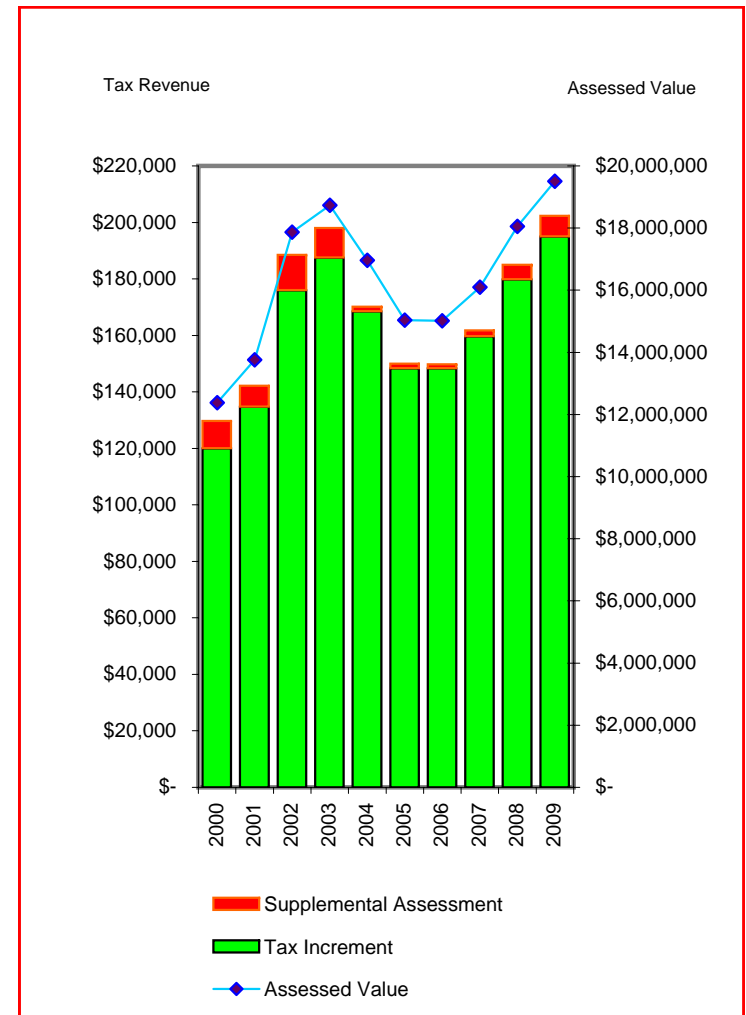
Last Ten Fiscal Years

(dollar amounts expressed in thousands)

Table 5

Fiscal Year	Assessed Value (1)	% Change	Tax Increment	Supplemental Assessment	Gross Tax Revenues	% Change
2000	\$ 12,382,598	10.3%	\$ 119,982	\$ 9,699	\$ 129,681	15.6%
2001	13,761,356	11.1%	134,649	7,502	142,151	9.6%
2002	17,866,814	29.8%	175,926	12,533	188,459	32.6%
2003	18,732,944	4.8%	187,448	10,578	198,026	5.1%
2004	16,962,642	(9.5%)	168,502	1,706	170,208	(14.0%)
2005	15,040,831	(11.3%)	148,329	1,647	149,976	(11.9%)
2006	15,015,576	(0.2%)	148,328	1,491	149,819	(0.1%)
2007	16,091,802	7.2%	159,571	2,248	161,819	8.0%
2008	18,053,654	12.2%	179,763	5,179	184,942	14.3%
2009	19,510,189	8.1%	194,929	7,417	202,346	9.4%

(1) Total assessed value for tax increment generating area of the Merged Area. Tax increment revenue calculated on incremental assessed value, after subtracting base year assessed value from total assessed value. For fiscal year 2008-2009, total assessed value includes \$15,256,509,161 in value on the secured roll and \$4,253,679,772 in value on the unsecured roll. The current base year value is \$1,095,977,484.



Source: Santa Clara County Assessor, Urban Analytics, LLC, and Redevelopment Agency of the City of San Jose.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Table 6

Merged Area Redevelopment Projects  
 Ten Largest Property Owners  
 Current Fiscal Year and Nine Years Ago  
 (dollars expressed in thousands)

Taxpayer	Type of Industry	2009					2001				
		Rank	Assessed Secured Value	Assessed Unsecured Value	Total Assessed Value	Percentage of Total Assessed Value	Rank	Assessed Secured Value	Assessed Unsecured Value	Total Assessed Value	Percentage of Total Assessed Value
Cisco Systems, Inc.	Computer Networking Equipment	1	\$ 1,038,809	\$ 1,930,655	\$ 2,969,464	15.22%	1	\$ 820,713	\$ 854,604	\$ 1,675,317	12.17%
Blackhawk Parent LLC	Real Estate Development	2	857,269		857,269	4.39%					
The Irvine Company	Real Estate Development	3	746,778		746,778	3.83%					
Hitachi Global Storage Techs, Inc.	Computer Disc Storage	4	619,013		619,013	3.17%					
CarrAmerica Realty Corp.	Real Estate Development	5	406,615	979	407,594	2.09%	4	300,087	158	300,245	2.18%
Adobe Systems	Technology	6	218,506	73,958	292,464	1.50%	6	135,858	40,407	176,265	1.28%
eBay Inc	Internet Software and Services	7	260,072		260,072	1.33%					
Mission West Properties	Real Estate Development	8	222,265		222,265	1.14%					
Novellus Systems Inc	Semiconductor Equipment	9	184,539	222	184,761	0.95%	7	141,266	28,350	169,616	1.23%
Park Center Plaza	Real Estate Development	10	169,500		169,500	0.87%					
IBM	Computer Disc Storage						2	1,145,338	1,534	1,146,872	8.33%
Spieker Properties	Real Estate Development						3	517,422	249	517,671	3.76%
Silicon Valley Props LLC	Real Estate Development						5	182,523		182,523	1.33%
Agilent Technologies, Inc.	Technology						8	160,175		160,175	1.16%
Corporation Technology Center	Real Estate Development						9	137,209		137,209	1.00%
Altera Corporation	Semiconductor						10	135,675		135,675	0.99%
Totals - Ten Largest Property Owners			<u>\$ 4,723,366</u>	<u>\$ 2,005,814</u>	<u>\$ 6,729,180</u>	<u>34.49%</u>				<u>\$ 4,601,568</u>	<u>33.44%</u>
Total assessed value in the tax generating area of the Merged Area			<u>\$ 15,256,509</u>	<u>\$ 4,253,680</u>	<u>\$ 19,510,189</u>	<u>100.00%</u>				<u>\$ 13,761,356</u>	<u>100.00%</u>

Source: Redevelopment Agency of the San Jose, Santa Clara County Assessor, and Urban Analytics, LLC.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Table 7

Ratios of Outstanding Debt By Type

Governmental Activities

Last Ten Fiscal Years

As of June 30, 2009

(dollars expressed in thousands, except Per Capita)

Fiscal Year	Tax Allocation Bonds	Housing Bonds	Subordinated Debt	Total Debt	Percentage of Personal Income (a)	Per Capita (a)
2000	\$ 1,131,345	\$ 75,655	\$ 252,610	\$ 1,459,610	3.66%	\$ 1,580.36
2001	1,112,705	117,855	299,480	1,530,040	3.20%	1,709.65
2002	1,443,080	185,700	300,395	1,929,175	4.83%	2,358.49
2003	1,422,550	183,375	295,125	1,901,050	4.51%	2,055.19
2004	1,524,705	210,775	349,660	2,085,140	4.89%	2,251.28
2005	1,504,100	278,675	364,725	2,147,500	4.74%	2,281.87
2006	1,469,900	275,375	404,695	2,149,970	4.40%	2,254.40
2007	1,526,950	269,395	392,375	2,188,720	4.03%	2,247.90
2008	1,716,260	262,675	387,012	2,365,947	4.03%	2,391.06
2009	1,802,235	253,270	422,612	2,478,117	4.19%	2,461.15

Note: Details regarding the Agency's outstanding debt can be found in the notes to the financial statements and statistical table 8.

(a) - See statistical table 12 for personal income and population data. These ratios are calculated using personal income and population of prior calendar year.

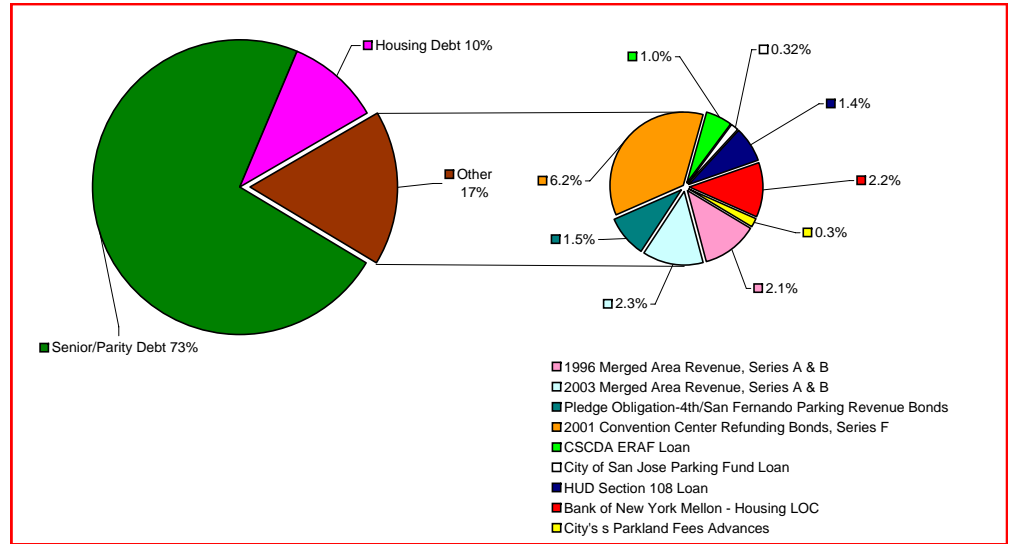
Source: US Bureau of Economic Analysis and Redevelopment Agency of the City of San Jose

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Debt Profile  
June 30, 2009

Table 8

	Due Serially To	Amounts (in thousands)
<b>Senior/Parity Debt (debt payment equally secured)</b>		
1993 Merged Area Refunding Tax Allocation Bonds	2015	\$ 59,680
1997 Merged Area Tax Allocation Bonds	2028	6,680
1998 Merged Area Tax Allocation Bonds	2009	1,505
1999 Merged Area Tax Allocation Bonds	2019	12,920
2002 Merged Area Tax Allocation Bonds	2015	22,565
2003 Merged Area Tax Allocation Bonds	2033	127,545
2004 Merged Area Tax Allocation Bonds, Series A	2019	242,105
2005 Merged Area Tax Allocation Bonds, Series A & B	2028	219,855
2006 Merged Area Tax Allocation Bonds, Series A & B	2022	80,300
2006 Merged Area Tax Allocation Bonds, Series C & D	2032	700,735
2007 Merged Area Tax Allocation Bonds, Series A & B	2036	211,050
2008 Merged Area Tax Allocation Bonds, Series A & B	2036	117,295
Sub -Total		<u>1,802,235</u>
<b>Housing Bonds</b>		
1997 Housing Set-Aside Bonds, Series E	2027	17,045
2003 Housing Set-Aside Bonds, Series J & K	2029	52,120
2005 Housing Set-Aside Bonds, Series A & B	2035	125,590
2005 Housing Set-Aside Bonds, Series C & D	2035	58,515
Sub -Total		<u>253,270</u>
<b>Subordinated Debt (in payment priority) - Other</b>		
1996 Merged Area Revenue, Series A & B	2026	51,600
2003 Merged Area Revenue, Series A & B	2032	56,600
Pledge Obligation-4th /San Fernando Parking Revenue Bonds	2026	38,255
2001 Convention Center Refunding Bonds, Series F	2022	153,310
CSCDA ERAF Loans	2016	23,980
City of San Jose Parking Fund Loan	2009	6,800
HUD Section 108 Loans	2025	33,955
Housing Line of Credit	2014	50,000
City's s Parkland Fees Advances	2010	8,112
Sub -Total		<u>422,612</u>
Grand Total		<u>\$ 2,478,117</u>



Source: Redevelopment Agency of the City of San Jose

Table 9

Debt Service Coverage for Senior (Parity) Debt  
Governmental Activities  
As of June 30, 2009  
(dollars expressed in thousands)

Tax Allocation Revenue	\$	202,346
Less: Housing Set-Aside (20%)		(40,469)
Net Statutory Pass-Through Payments		<u>(3,142)</u>
Tax Allocation Revenue Available for Debt Service		<u>158,735</u>
Maximum Annual Debt Service on Senior Lien Parity Bonds	\$	<u>133,045</u>
Debt Service Coverage - June 30, 2009		<u><u>1.19</u></u>

## Note:

Debt Service Coverage represents the ratio of tax revenue pledged for the payment of senior (parity) debt service.

## New Senior (Parity) Bonds Issuance Coverage Test:

The 1993 Bonds, 1997 Bonds, 1998 Bonds, 1999 Bonds, 2002 Bonds, 2003 Bonds, 2004 Bonds, 2005 Bonds, 2006 Bonds, 2007 Bonds and 2008 Bonds represent the Parity Debt of the Agency, which are secured by a senior lien pledge of the tax revenues. Bonds Indenture requires that tax revenues will be at least equal to 1.15 times the Maximum Annual Debt Service on all outstanding bonds and the then Parity Debt in order for new bonds to be issued. Refunding Bonds may be issued without meeting the 1.15 times coverage if the Maximum Annual Debt Service on all Parity Debt outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Bonds outstanding prior to the issuance of such Refunding Bonds.

Source: Redevelopment Agency of the City of San Jose

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
Merged Area Redevelopment Project  
Tax Increment Revenues and Debt Service Coverage on All Debt  
Last Ten Fiscal Years  
(dollar amounts expressed in thousands)

Table 10

<u>Fiscal Year</u>	<u>Tax Increment Revenues<sup>(1)</sup></u>	<u>Annual Debt Service<sup>(1)</sup></u>	<u>Debt Service Coverage<sup>(1)</sup></u>	<u>Per Capita Personal Income<sup>(2)</sup></u>
2000	\$ 129,681	\$ 96,487	1.34	\$ 43
2001	142,151	100,030	1.42	53
2002	188,459	99,777	1.89	49
2003	198,026	121,835	1.63	46
2004	170,208	125,389	1.36	46
2005	149,976	125,868	1.19	48
2006	149,819	135,595	1.10	51
2007	161,819	135,569	1.19	55
2008	184,942	149,543	1.24	59
2009	202,346	163,629	1.24	59

Note: The annual debt service represents payments of principal, interest and other charges associated to all Agency's debt (tax allocation bonds and other long-term debt).

Source:

<sup>(1)</sup> *Redevelopment Agency of the City of San Jose*

<sup>(2)</sup> *U.S. Department of Commerce, Bureau of Economic Analysis (data is for previous calendar year)*

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Table 11

Project Area and Debt Termination

June 30, 2009

	<u>Tax Increment Generating Project Areas</u>	<u>Acreage (a)</u>	<u>Plan Adoption</u>	<u>Plan Termination (b)</u>	<u>Last Day to Repay Debt (b)</u>
1	Almaden Gateway	21	4/7/1988	4/7/2029	4/7/2039
2	Century Center	18	11/8/1983	11/8/2026	11/8/2036
3	Edenvale Area:				
	Edenvale	1,050	7/15/1976	7/15/2019	7/15/2029
	Edenvale East	995	9/1/1981	9/1/2024	9/1/2034
4	Guadalupe Auzerias	73	5/19/1983	5/19/2026	5/19/2036
5	Julian Stockton	330	7/15/1976	7/15/2019	7/15/2029
6	Market Gateway	32	11/8/1983	11/8/2026	11/8/2036
7	Monterey Corridor	515	12/13/1994	12/13/2026	12/13/2041
8	Olinder	158	7/15/1976	7/15/2019	7/15/2029
9	Park Center	61	7/24/1961	1/1/2012	1/1/2022
10	Pueblo Uno	12	7/8/1975	7/8/2018	7/8/2028
11	Rincon Area:				
	Rincon Expansion	1,224	7/3/1979	7/3/2022	7/3/2032
	Rincon North (C)	1,699	6/8/1982	6/8/2025	6/8/2035
	Rincon Original	1,872	7/16/1974	7/16/2017	7/16/2027
	Rincon South (c)		6/8/1982	6/8/2025	6/8/2035
12	San Antonio Plaza	50	1/3/1968	1/1/2012	1/1/2022
13	Strong Neighborhood Initiative				
	Diridon Area	59	6/25/2002	7/26/2033	7/26/2048

(a) Acreages reflect an in-dept GIS analysis of the tax generation projects as of December 21, 2004. Diridon Area was done on September 10, 2008.

(b) Reflects a one-year extension as permitted according to State Bill 1045 and 1096.

(c) Acreage for the Rincon South has been combined with Rincon North.

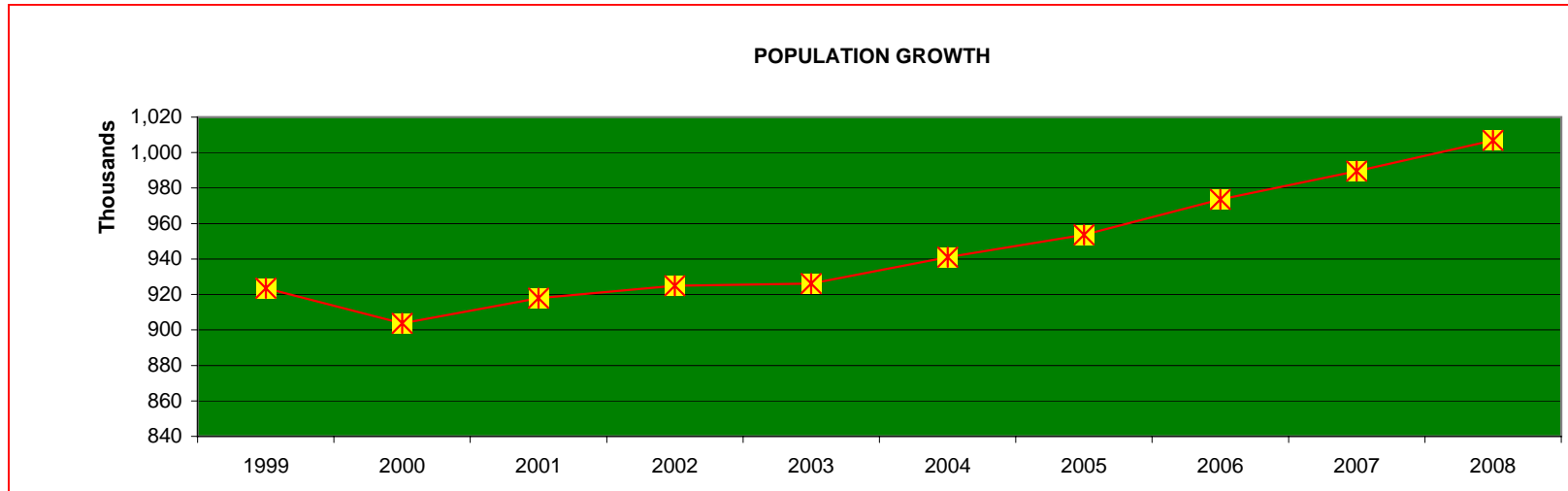
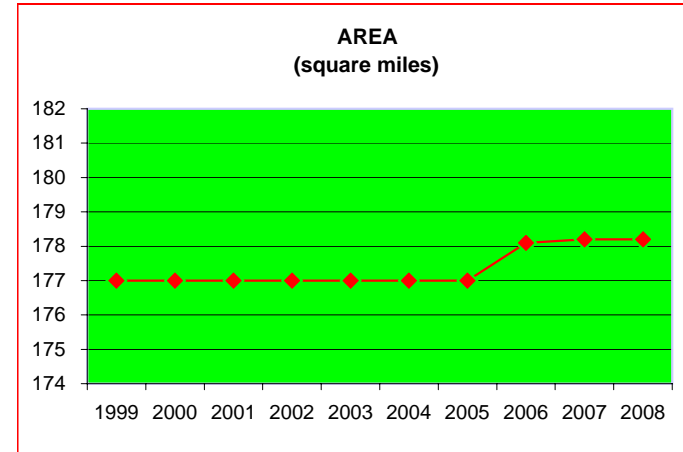
Source: Redevelopment Agency of the City of San Jose.



**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
 Demographic and Economic Statistics for the City of San Jose  
 Last Ten Years

Table 12

Calendar Year	Population <sup>(1)</sup>	Area in Square Miles <sup>(2)</sup>	Personal Income (In Thousand)	Per Capita Personal Income <sup>(3)</sup>
1999	923,591	177.00	\$ 39,892,666	\$ 43,193
2000	894,943	177.00	47,793,536	53,404
2001	917,971	177.00	44,838,293	48,845
2002	925,000	177.30	42,171,675	45,591
2003	926,200	177.70	42,620,019	46,016
2004	941,116	177.70	45,276,150	48,109
2005	953,679	177.80	48,901,798	51,277
2006	973,672	178.10	53,571,433	55,754
2007	989,496	178.20	58,099,247	59,338
2008	1,006,892	178.20	59,207,263	58,802



Source:

- (1) City of San Jose Comprehensive Annual Financial Report for 1998 to 2001 and California Department of Finance population estimates for 2002 to 2008
- (2) Redevelopment Agency of The City of San Jose and City of San Jose
- (3) US Bureau of Economic Analysis, based on San Jose-Sunnyvale-Santa Clara MSA

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Table 13

Principal Employers\*  
Current Year and Nine Years Ago

Employer	2009			2000		
	Rank	Number of Employees	*Percent of Total Employment	Rank	Number of Employees	*Percent of Total Employment
County of Santa Clara	1	15,240	1.88%	1	16,000	1.71%
Cisco System	2	13,500	1.67%	2	13,948	1.49%
IBM	3	7,460	0.92%	3	8,500	0.91%
City of San Jose	4	6,990	0.86%	4	6,660	0.71%
San Jose State University	5	3,100	0.38%			
Ebay/Paypal	6	3,000	0.37%			
Hitachi	7	2,900	0.36%			
San Jose Unified School District	8	2,690	0.33%	6	3000	0.32%
Xilinx	9	2,440	0.30%			
Sanmina-SCI	10	2,170	0.27%			
U.S. Postal Service				5	6,500	0.69%
Cypress Semiconductor				7	2,901	0.31%
Pacific Bell				8	2,500	0.27%
VLSI Technology				9	2,483	0.27%
KLA-Tencor				10	2,000	0.21%

\* Based on total employment of 809,500 for 2009 and 936,900 for 2000 in San Jose Metropolitan Statistical Area which is equivalent to Santa Clara and San Benito Counties.

*Source: City of San Jose, Office of Economic Development  
U.S. Department of Commerce, Bureau of Economic Analysis  
California Employment Development Department, Labor Market Information Division.  
Redevelopment Agency of the City of San Jose*

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**

Table 14

Miscellaneous Statistics

June 30, 2009

Date Established:	1956
Governing Body:	City Council (as Board of Directors)
Number of Employees:	119
Population of City of San Jose	1,006,892
Area:	
City of San Jose	178.2 sq. mi.*
Redevelopment Area (see geographical map)	18,476 acres dispersed throughout the City

	Project Areas		
	Area	Approximate Acreage **	Tax Increment Generating Area
Redevelopment Project Areas:			
1.) Downtown	8	300	7
2.) Neighborhood Business Districts:			
Neighborhood business districts (6) and non- contiguous business clusters (6)	7	684	0
3.) Strong Neighborhood Initiative (21 neighborhoods)	1	9,663	0.05***
4.) Industrial	5	7,829	5
Total Redevelopment Project Areas	21	18,476	12

Source: \* California Department of Finance, City of San Jose, and Redevelopment Agency of the City of San Jose

\*\* Acreages reflect an in-depth GIS analysis of the tax generating project areas as of December 21, 2004 by the Redevelopment Agency of the City of San Jose

\*\*\* SNI Diridon Area was converted to tax generating project area on May 5, 2009

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE  
 Operating Indicators By Function  
 Last Eight Fiscal Years

Table 15

	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Agency's Authorized Number of Employees	136	136	124	113	113	116	116	119
Core Services (a):								
1.) Strengthen Neighborhoods:								
Promote and Implement Neighborhood Improvement Strategies								
Number of Projects Completed:								
Façade Improvement Projects	51	114	44	53	24	43	45	19
Streetscapes Projects	6	6	2	17	10	8	3	6
2.) Build Public Facilities:								
Initiate and Facilitate Public Facilities and Spaces								
Number of Completed Public Projects	7	18	11	9	12	8	17	29
3.) Develop Affordable Housing:								
Enhance the Quality and Supply of the City's Housing Stock								
Number of New Housing Units Completed	945	889	624	254	292	585	76	870
4.) Create Jobs and Expand Business:								
Initiate and Facilitate Private Development								
Number of jobs created or sustained	1,705	543	1,481	1,489	5,509	9,371	3,386	4,476

(a) The Core Services were approved by the Agency Board in fiscal year 2000. Indicators are available only beginning fiscal year 2001-02.

Source: Redevelopment Agency of the City of San Jose.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
 Capital Assets and Accumulated Redevelopment Project Costs Statistics by Function  
 Last Eight Fiscal Years

Table 16

Capital Assets Function/Program	Fiscal Year							
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General government								
Parking structure	1	1	1	1	1	1	2	2
Community Development								
Parcels of land	-	-	-	-	2	2	3	3
Retail Site Improvement (number of sites)	-	-	-	-	1	1	1	1
Completed Public Improvement/facilities	-	-	-	-	2	5	5	5
Equipment (by project and purpose)	-	-	-	-	-	1	2	2
Accumulative Redevelopment Project Costs								
Merged Project Area								
Parcels of land for future development	174	132	145	144	131	123	122	123
Ongoing Public Improvement/facilities	12	25	22	26	31	24	20	16

Note: - No capital assets are used for Housing and Debt Service Function/Program.  
 - The Agency initially implemented GASB 34 reporting model in fiscal year 2001-2002. Since GASB 34 changes significantly both the recording and presentation of financial data, fiscal years prior to 2002 have not been restated for the purpose of providing the 10-year comparative information for the above schedule.

Source: Redevelopment Agency of the City of San Jose

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