

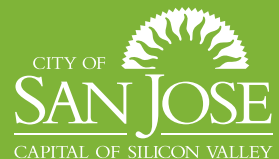


The Redevelopment Agency of the City of San Jose

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

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2010

www.sjredevelopment.org



Redevelopment Agency

Photos: Included in this CAFR are photos of some notable redevelopment projects of the Agency.

From left to right, the cover photos are Downtown San Jose at Night, worker at International Rectifier in North San Jose, and New Brocade Campus in North San Jose.

The Redevelopment Agency of the City of San Jose

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



Brocade Grand Opening - North San Jose

Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2010

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, 2010

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Fiscal Year Ended June 30, 2010

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2010

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Edenvale Community Center

INTRODUCTORY SECTION

November 9, 2010

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 ended June 30, 2010.

This is the 10th consecutive year that the Agency has produced a CAFR. 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, 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, 2010, 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, 2010, 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 14 and 15.

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 16 to 30 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 86.

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 eliminating physical and economic blight through 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 January 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, 2010, the Agency has twenty-one (21) ongoing redevelopment project areas (see geographic locator map on page 13), which are grouped into four categories: Industrial, Downtown, Neighborhood Business Districts/Clusters, and Strong Neighborhoods Initiative. The Agency is one of the largest redevelopment agencies in the State of California in terms of 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 (see page 31). Therefore, the Agency traditionally carries a deficit to collect tax increment revenues.

The Agency used the criteria in conformity with the standards prescribed by Governmental Accounting Standards Board (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 shift 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 77 to 80. For the debt service funds and capital projects fund, the comparisons are presented under Other Supplementary Information subsection of this report on pages 81 to 85.

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 Tax Increment Generating Area of the Merged Area experienced declines in assessed valuation during fiscal years 2003-04 through 2005-06 as a result of a weakening local economy. The technology business sector contributes significantly to the Silicon Valley economy, including property values within the Tax Increment Generating Area of the Merged Area. The contraction of the technology business sector has led to significant reductions in property values both in Silicon Valley and in the Tax Increment Generating Area of the Merged Area. While improvement in this business sector may lead to increased property values, the continued importance of technology business to the area economy may continue to affect property values.

Although some economic factors suggest the national, State and local economies may be headed into a recovery, historical patterns in the Merged Area suggest that assessed value increases and decreases in the Merged Area may lag economic conditions. For example, assessed values in the Merged Area continued to increase for two fiscal years following the significant economic decline that began in April 2000 (commonly referred to as the “dot com bust”).

The Merged Area Redevelopment Project. The Agency's project areas are grouped into four categories: Industrial, Downtown, Neighborhood Business Districts Cluster and Strong Neighborhoods Initiative. These categories are described below.

Industrial. Project areas in this category are as follows:

Rincon de los Esteros has four sub-areas comprising a total of 4,795 acres and is zoned primarily for industrial park uses. These four areas generated \$140.1 million or 69.2% of the \$202.4 million total tax increment revenues for fiscal year 2009-10. Approximately 237 acres are currently undeveloped. Also known as the "Innovation Triangle," this area contains one of Silicon Valley's largest concentrations of businesses including research and development, office, manufacturing, light industrial, and warehouse uses. The Agency estimates that approximately 1,800 businesses employing 66,000 people are located in the area. Major employers include Cisco Systems, Brocade, Siemens, Novellus, Sony America, Cypress Semiconductors, eBay, BEA, Samsung, Sanmina, Canon, Atmel, Altera, Cadence Design, Lockheed Martin, Lumileds Lighting, Avago Technologies, Qualcomm and Ericsson. The Agency has invested more than \$185 million since 1977 in infrastructure improvements in this industrial project area. The area is adjacent to the Norman Y. Mineta San José International Airport and is bounded by Routes 237, U.S. 101 and Interstate 880. It is served by the Light Rail Transit System and other public transportation facilities and is connected to the downtown by Route 87.

Edenvale has two sub-areas totaling 2,045 acres and is zoned primarily for light industrial uses, including research and development, office and manufacturing uses. The two areas generated \$23.6 million or 11.7% of the total tax increment revenues in the current fiscal year. Approximately 300 acres remain undeveloped. Located 10 miles south of downtown, Edenvale is currently home to approximately 300 firms employing approximately 13,400 people. Major employers include Hitachi, IBM, IDT, Northrop Grumman, Power Integrations, Stryker Endoscopy, Western Digital, Jabil Circuits, Celestica, Snap-on, NanoSolar, Cobham, Covidien and Motorola. The Agency has invested nearly \$115 million in infrastructure improvements to prepare the area for industrial development.

Julian Stockton, in the older portion of the central business district at the northern entrance to the downtown area, is an area where current uses are primarily light manufacturing, warehousing, small office and commercial. It generated \$7.2 million or 3.6% of the total tax increment revenues in the current fiscal year. The area is home to approximately 330 employers with approximately 3,600 employees. Major employers in the area include PG&E, Gandiff Industries, Fire Clay Tile, Comerica Bank, Aramark,

Target and Milligan News. The Agency has invested approximately \$266 million in infrastructure improvements since 1977. Three major public projects in this area include the HP Pavilion at San José, the Guadalupe Parkway (Route 87) and the Guadalupe River Park.

Olinder is an older light industrial area at the intersection of U.S. 101 and Route 280 just south of downtown. It generated \$2.5 million or 1.2% of the total tax increment revenues in the current fiscal year. This area has approximately 160 employers with approximately 1,500 employees. Major employers include Air Systems, Legacy Transportation and Sal J. Acosta Sheetmetal. The Agency has invested over \$1.5 million in infrastructure improvements in this project area.

Monterey Corridor was established in 1994. It generated \$2.6 million or 1.3% of the total tax increment revenues in the current fiscal year. There are more than 515 employers with approximately 4,000 employees in the area. Major employers include Simsmetal USA, Southern Lumbar, United Parcel Service, CAIAIR, and San José Mailing. The Agency has invested over \$34 million in infrastructure improvements in this project area.

Downtown. Eight project areas form the 369 acre core of downtown San José, both geographically and culturally. These include seven tax increment producing areas, Almaden Gateway, Pueblo Uno, Century Center, Park Center Plaza, San Antonio Plaza, Guadalupe Auzeais, Market Gateway and one non-tax increment producing area, Civic Plaza. These areas generated \$26.4 million or 13.0% of the total tax increment revenues in the current fiscal year.

Neighborhood Business Districts. The Agency started its Neighborhood Business District ("NBD") program in 1982 to revitalize older commercial areas that had become blighted. Nine non-tax increment revenue generating NBDs have become project areas since 1988: East Santa Clara Street, Alum Rock Avenue, West San Carlos Street, The Alameda, Story Road, Japantown, Winchester, 13th Street and Willow Street. These districts represent historically active commercial centers of the City, and all serve as gateways to downtown San José with the exception of Story Road, which supports major residential areas to the east and south of downtown.

In 2001, the Agency adopted the Neighborhood Business Clusters Redevelopment Project Area, which, like the project areas in the NBD program, does not generate Tax Increment Revenue. This project area is comprised of six non contiguous business clusters located throughout the City, and they are referred to as Bascom Station, Fruitdale Station, Union and Foxworthy, Union and Camden, White and Quimby, and Monterey and Roeder.

Strong Neighborhoods Initiative. Historically, the Agency's primary redevelopment focus has been on downtown San José, major commercial corridors, and industrial areas. In recent years, Agency Board and public interest has been growing in the preservation and revitalization of the older residential neighborhoods in the City. The Strong Neighborhoods Initiative ("SNI") is a partnership of the City, the Agency and the community to revitalize and redevelop neighborhoods in a newer project area (the "SNI Project Area") with public

improvement projects such as streetscape improvements, traffic calming, transit and parking improvements and community based projects such as community centers, libraries, public schools, open space and recreational facilities. In total, the SNI Project Area encompasses approximately 9,865 acres and consists of 19 neighborhoods grouped within six non-contiguous sub areas. The SNI Project Area consists predominantly of residential land uses. The remainder of the SNI Project Area is developed with a mixture of commercial, industrial, public/quasi public, open space/recreation, agricultural and vacant land uses. The redevelopment plan for the SNI Redevelopment Project Area was adopted in June 2002.

On May 19, 2009, the SNI was amended to authorize the collection of tax increment from a small portion of the SNI Project Area designated as the Diridon Area. The Diridon Area is a 59-acre area just west of Downtown, south of the HP Pavilion and east of the Diridon train station. SNI is subject to a statutory limit of 45 years from the plan adoption date for the repayment of indebtedness.

Long-term financial planning. On July 1, 2010, the County Assessor released its report on the Agency’s assessed valuation for FY 2010-2011. Total assessed valuation in the Agency’s Merged Redevelopment Area Tax Increment Generating Area for next fiscal year decreased by 7.3%. As a result of the decrease in assessed valuation, the Agency’s tax increment revenue, excluding supplemental assessments, for FY 2010-2011 is expected to decline by approximately \$16 million or 7.89% to \$184 million from \$200 million received in FY 2009-2010.

Taking into consideration the national and regional economic forecasts and the “Economic, Real Estate, Assessed Value and Revenue Forecast 2010 Update” prepared by Spectrum Economics, dated September 15, 2010, along with the status of development projects in the pipeline, the Agency expects tax increment revenue to continue to decline in FY 2011-2012, though at a more moderate rate than FY 2010-2011. Spectrum Economics projects a decline of just 0.6% in FY 2011-2012, but the Agency took a more conservative approach for a full 2.0% decline of tax increment. By FY 2012-2013, the Agency expects to see the recovery underway and many of the projects moving forward such as Bank of America, Fairfield Northpointe, North San Pedro, Equity Residential’s Vista Montana, Irvine and Essex.

The table below summarizes the Agency’s projected tax increment revenue for the three fiscal years starting FY 2010-2011 and ending FY 2012-2013:

Fiscal Year	Tax Increment Revenue	
	Growth Rate	Amount (in millions)
2010-11	(7.89%)	\$ 184
2011-12	(2.00%)	181
2012-13	3.40%	187

Based on this new revenue forecast, the Agency staff has substantially revised its FY 2010-2011 Budget. The Revised Budget, which was approved by the Agency Board on November 2, 2010, 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. Promote 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 *FY 2010-2011 Adopted Capital Budget* was adopted by the City Council (Agency Board) on June 15, 2010 and was amended on November 2, 2010. The amendments to the *Adopted Capital Budget* are included in the *Revised FY 2010-2011 Operating and Capital Budget, FY 2010-2013 Spending Plan*, with a total operating budget of \$17.9 million and capital budget of \$41.3 million for fiscal year 2010-2011, including \$17.3 million legally or contractually encumbered. The \$41.3 million revised capital budget is proposed to be allocated as follows: \$20.5 million to economic development, \$12.9 million to build public facilities, \$3.6 million to develop and preserve housing, \$1.1 million to strengthen neighborhoods, \$3.2 million for strong neighborhoods initiative. Because of the effects of lower tax increment revenue projections due to the downturn of the economy in the wake of great recession and deep economic uncertainty, the budget amendments incorporated the Agency's laying off an additional 20% of its staff in September 2010 on top of the 25% staff laid off last fiscal year dropping the number of staff from 119 positions in Fiscal Year 2008-09 to 64 positions, put many capital projects on hold, and scaled down the capital projects program.

In July 2009, in an effort to balance the State budget, the California Legislature passed a bill raiding the coffers of state redevelopment agencies. The San Jose Redevelopment Agency was required to make a contribution to the Supplemental Educational Revenue Augmentation Fund (SERAF) of \$62 million in 2010 and \$13 million in 2011. To fund these payments, the City Council and Agency Board approved a SERAF financing plan in which the City made funds available to the Agency totaling \$75 million, as discussed further in the Notes to the Financial Statements.

Major current fiscal year initiatives. The Agency's major redevelopment projects during the FY 2009-2010 included funding of the Strong Neighborhoods Initiative (SNI) of \$6.1 million, Neighborhood Business Districts (NBD) of \$2.0 million, \$2.9 million to build affordable housing, \$16.0 million to build public facilities, and \$37.5 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 2009-2010 were the acquisition of Autumn Street properties for infrastructure development, acquisition of parcels in anticipation of a potential Major League Ballpark to be located adjacent to Diridon Station, attracting and retaining growing companies that create jobs, renovation of the Civic Auditorium, development of a site in the northern area of Downtown (North San Pedro area) for 779 units of market rate housing, and construction of the Edenvale Community Center.

Debt and net assets (deficit) management. At year-end, the Agency had a number of debt issues outstanding. Of the total outstanding debt in the principal amounts of \$2.5 billion, \$1.8 billion is in the form of senior lien tax allocation bonds (TABs), \$418 million is in the form of various subordinated debt issues, and \$350 million is in the form of 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. Total debt service (principal and interest) on all existing senior and subordinate debt through 2037, which is the last bond year for any existing indebtedness, is \$3.9 billion. Based on a report by Urban Analytics, the Agency's Fiscal Consultant, in conjunction with the Merged Area Redevelopment Housing Set-Aside Tax Allocation Bonds Series 2010 A, B & C, the Agency is expected to be able to collect enough tax increment over the next twenty seven years to retire the debt without reaching its tax increment collection cap of \$15 billion and reduce or eliminate the net deficit of \$2.0 billion that has accrued as of June 30, 2010 (see Statement of Net Assets on page 31).

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 10) to the Agency for its last fiscal year 2008-2009 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 9th 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, 2010 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 for the second time for its annual budget document for the fiscal year ended June 30, 2009. 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, 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. Mavrogenes
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, 2009

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.



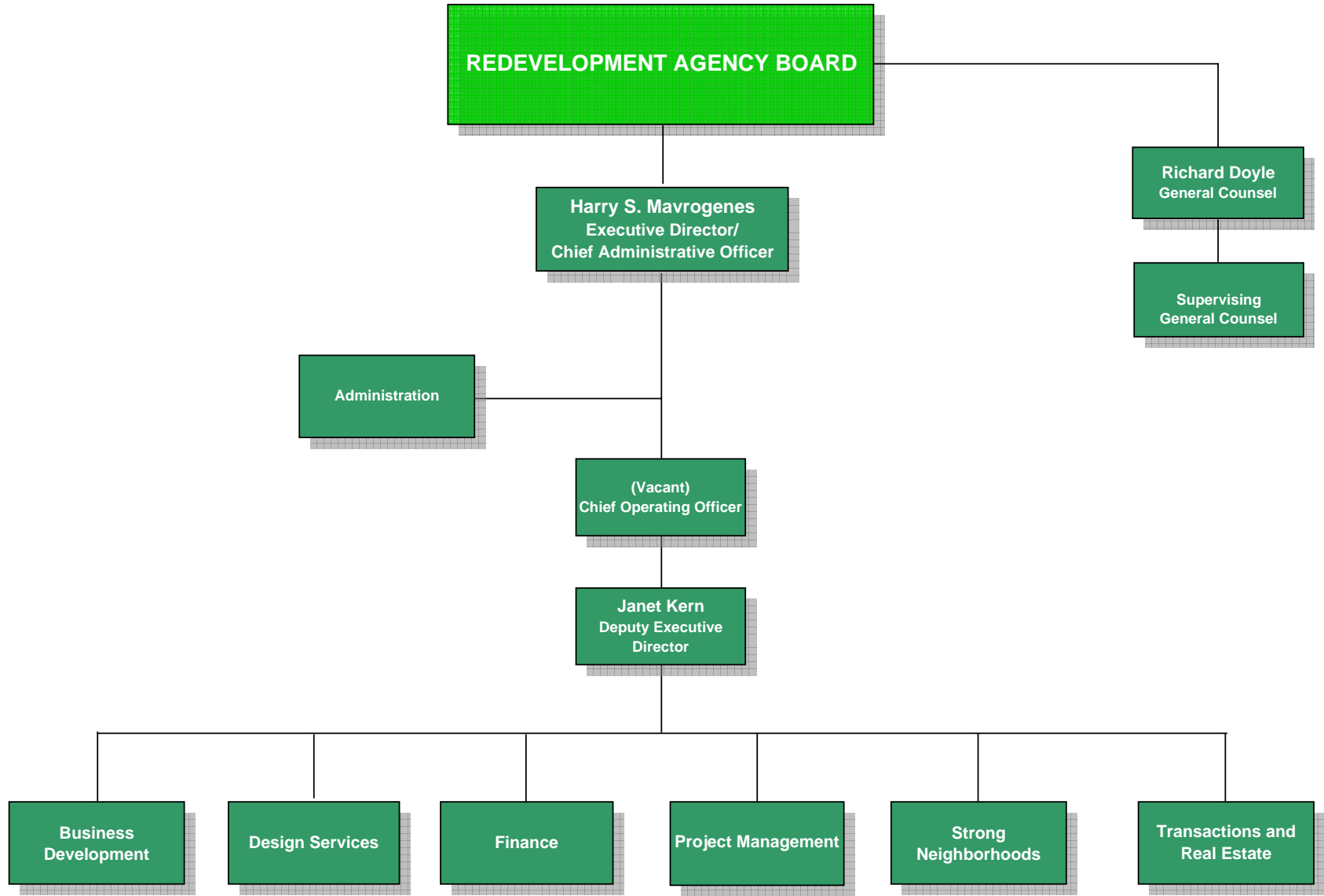
A handwritten signature in black ink, appearing to be "H.R.", written over a horizontal line.

President

A handwritten signature in black ink, reading "Jeffrey R. Emery".

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 12/31/14



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



Pete Constant
District 1
Term Expires 12/31/14



Ash Kalra
District 2
Term Expires 12/31/12



Sam Liccardo
District 3
Term Expires 12/31/14



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



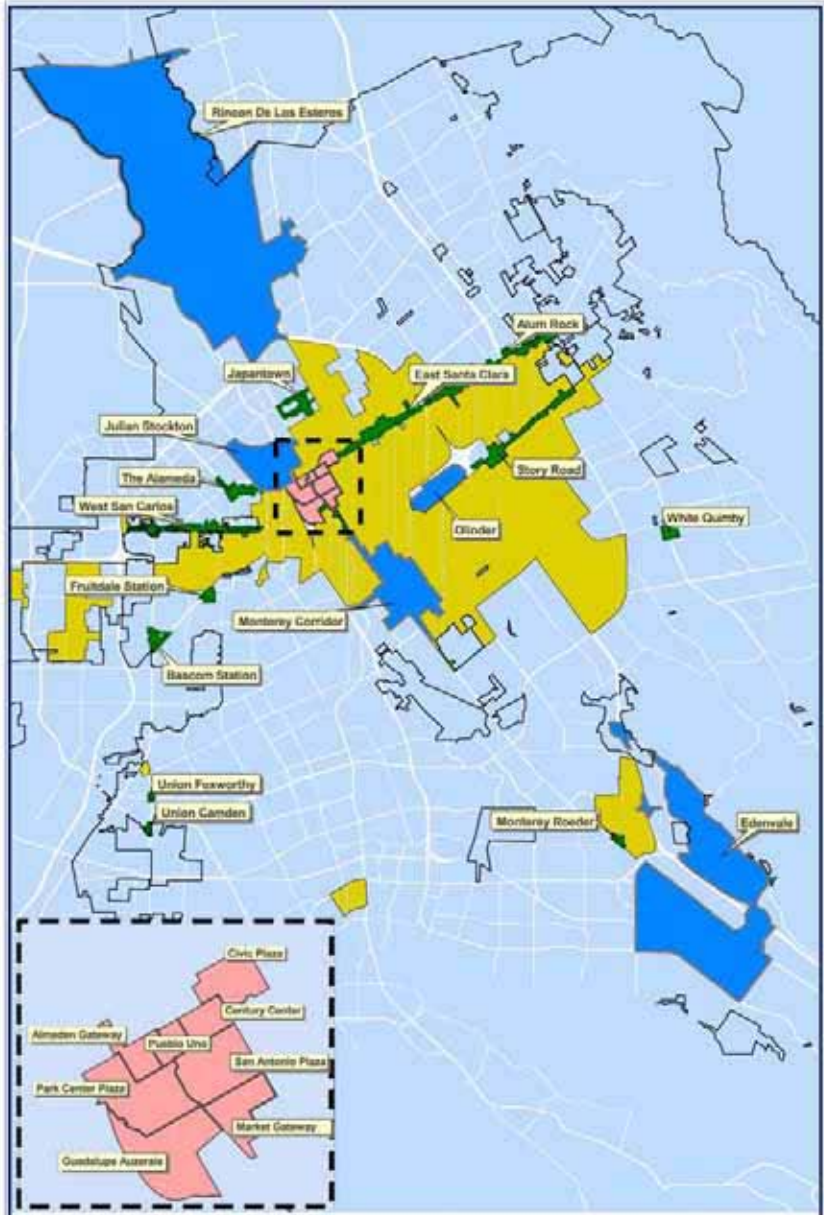
Nancy Pyle
District 10
Term Expires 12/31/12



Geographic Locator Map

Redevelopment project areas:

- Downtown
- Industrial
- Neighborhood Business Districts/Clusters
- Strong Neighborhoods Initiative





San Jose BioCenter — Edenvale



San Jose Innovation Center — Downtown

AUDITOR'S REPORT

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 (the Agency), a component unit of the City of San José, California, as of and for the fiscal year ended June 30, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, 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.

Macias Gini & Connell LLP

Certified Public Accountants

Walnut Creek, California

October 29, 2010, except as to Note III.E, Ambac Bankruptcy, as to which the date is November 9, 2010



Story and King Neighborhood Business District

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**Management's Discussion and Analysis
June 30, 2010**

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, 2010. 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 Comprehensive Annual Financial Report and the Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Liabilities of the Agency exceeded its assets in governmental activities at the close of fiscal year 2010 by \$1,967,211,000 (net assets/deficit). Of this amount, \$17,075,000 represents Invested in Capital Assets – Net of Related Debt, \$91,107,000 represents resources restricted for debt Service payment and \$10,000,000 represents temporary investments for unexpended bond proceeds held by bond trustee for low and moderate income housing activities. The remaining negative amount of \$2,085,393,000 represents the accumulated unrestricted deficit at the close of fiscal year 2010.

Total revenues in the governmental activities increased by a net amount of \$47,291,000 or 19% as compared to last year. The net increases are attributed mainly to the funds received from the City in repayment of the housing line of credit amounting to \$50,000,000. Total expenses in governmental activities were \$105,065,000 (Change in Net Assets) more than the \$299,220,000 total revenues generated during the current year. The Change in Net Assets has increased by \$13,024,000, compared to last year's change of \$57,134,000.

Total expenses in governmental activities increased by a net amount of \$60,315,000 or 18% as compared to last year. The net increase in expenses is mainly due to the \$62,248,000 Supplemental Educational Revenue Augmentation Funds (SERAF) payment for the State mandated payments to school districts to augment school funding.

At the close of the current fiscal year, the Agency's governmental funds reported the combined ending Fund Balances of \$189,499,000, a decrease of \$39,243,000 in comparison to prior year. Of the total ending Fund Balances, \$22,531,000 or 12% (unreserved fund balance) is available for redevelopment projects at the discretion of the Agency's Board but consistent with various restrictions on the use of the funds.

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

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.

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 31 and 32 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

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

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 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 33) 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 38 to 76 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 77 to 80).

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 2010, the Agency has a net deficit of \$1,967,211,000. The net deficit is composed of \$17,075,000 invested in capital assets-net of related debt, \$91,107,000 restricted for debt service payment and \$10,000,000 restricted for temporary investments held by bond trustee for the unexpended bond proceeds for low and moderate income housing activities. The remaining negative balance of \$2,085,393,000 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 \$2,524,034,000. Traditionally, the

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

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 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 – South Hall
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. 4th Street Parking Garage
13. California Theatre
14. Bellevue Park
15. Edenvale Community Center

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, 2010**

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, 2010 and 2009 (in thousands)		
	2010	2009
Current and other assets	\$ 319,497	\$ 358,455
Capital assets, net	345,135	355,290
Total assets	664,632	713,745
Long-term liabilities	2,524,034	2,486,013
Other liabilities	107,809	89,878
Total liabilities	2,631,843	2,575,891
Net assets:		
Invested in capital assets, net of related debt	17,075	22,218
Restricted for debt service	91,107	87,136
Restricted for low and moderate income housing activities	10,000	-
Unrestricted net deficit	(2,085,393)	(1,971,500)
Total net deficit	\$ (1,967,211)	\$ (1,862,146)

The Agency uses its capital assets of \$345,135,000 to eliminate blight in the San Jose' redevelopment project areas (see pages 52 to 54 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 \$38,021,000, which is the effect of additional debt incurred during the year of \$225,453,000 and the total debt service payment of \$187,582,000. The additional debt includes the 2010 Housing Set-Aside Tax Allocation Bonds of \$160,405,000, SERAF of \$62,735,000 and other obligations amounting to \$2,313,000. The total debt service payment includes the \$44,505,000 payment for tax allocation bonds, \$63,830,000 payment to housing set-aside bonds, \$71,360,000 payment to subordinated debt, and \$7,887,000 payment to other obligations.

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

Other liabilities increased by \$17,931,000 or 20% from the prior fiscal year due mainly to the County pass-through payment for fiscal year 2009-2010.

Net Assets in the amount of \$10,000,000 was restricted during the year. This represents the proceeds of Housing Set-Aside 2010 Series C held temporarily with the fiscal agent for the low and moderate income housing projects.

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 \$105,065,000 during the year. The increase accounts for 5% of the accumulated deficit at June 30, 2010.

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, 2010 and 2009
(In Thousands)

	2010	2009
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 82,271	\$ 32,019
Capital grants and contributions	3,972	6,384
Charges for services	1,176	-
General revenues:		
Tax increment	202,409	202,346
Unrestricted investment earnings	1,899	5,134
Others	7,493	6,046
Total revenues	299,220	251,929
Expenses:		
General government	7,503	7,677
Community development	162,421	135,237
Housing	123,599	90,469
Debt service	110,762	110,587
Total expenses	404,285	343,970
Change in net assets	(105,065)	(92,041)
Net deficit - beginning of year	(1,862,146)	(1,770,105)
Net deficit - end of year	\$ (1,967,211)	\$ (1,862,146)

Operating grants and contributions under program revenues, which represent 27% of the total revenues, increased by \$50,252,000 or 157% compared to FY 2008-2009. This is mainly due to

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

the \$50,000,000 funds received from the City to repay the Housing Set-Aside Line of Credit with Bank of New York.

Capital grants and contributions decreased by net amount of \$2,412,000 or 38% as compared to last year. The net decrease is mainly from a reduction in participation and cost sharing of the City in the Agency's capital projects. Last year, the City transferred \$5,307,000 for its share on the construction of Edenvale Community Center, while in the current year the City contributed only \$3,297,000 for the Watson Park project. Charges for services represent rental fees collected.

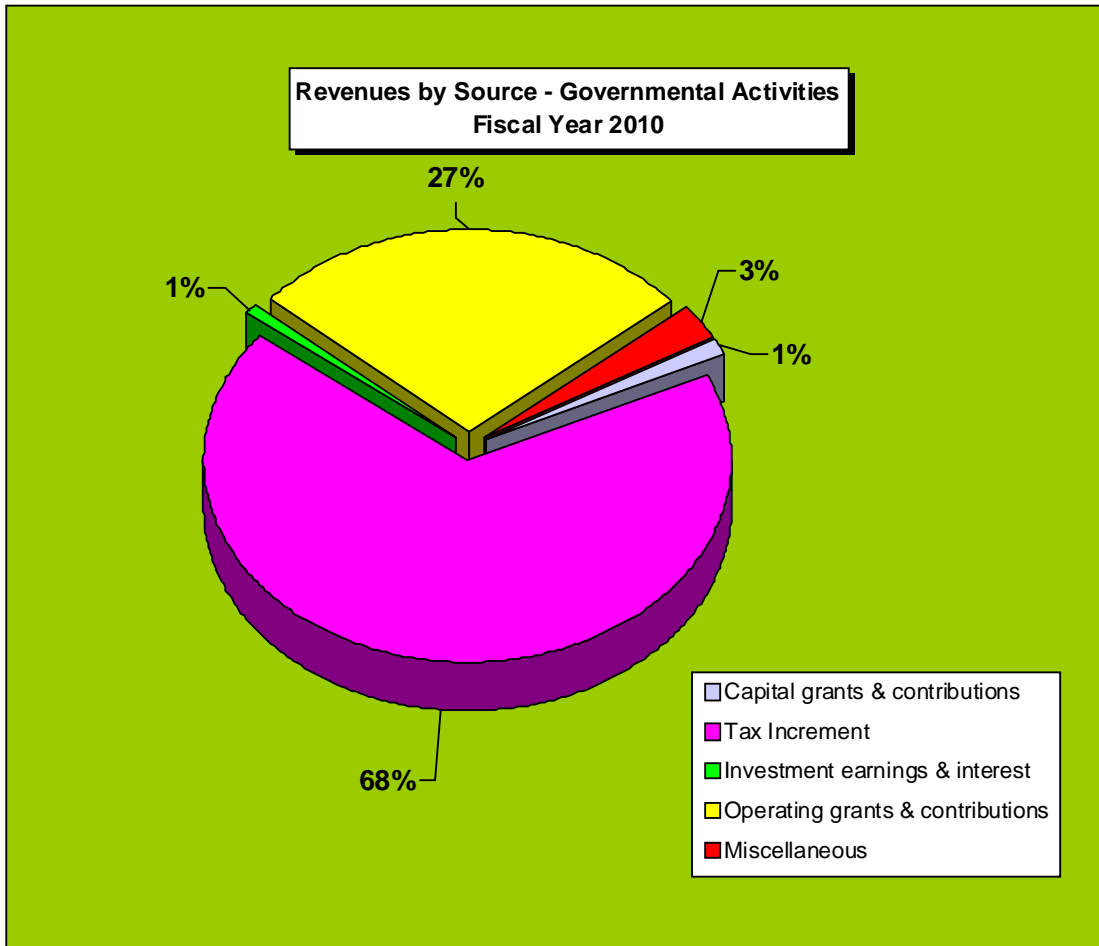
Tax increment, which represents approximately 68% of total revenues, increased from last year by a minimal \$63,000 or around 0.03% due to the effects of a sluggish economy.

Unrestricted investment earnings decreased by \$3,235,000 or 63% from last year due to lower cash balances and lower market yield on investments. The market yield decline can be compared to the downward yield on the Average Annual Yield on Local Agency Investment Fund (LAIF) of 2.224% in June 2009 to 0.651% in June 2010.

Other revenues which include developer's contribution, charges for service, parking, Project Service Memorandum (PSM) refunds, and miscellaneous revenues increased by a net of \$2,623,000 or 43% from last year. The increase was mainly due to \$1,526,000 increase in refunds from the City on unspent PSM's project funds and the Agency's share of insurance claim in the amount of \$811,000 on the Porter Stock Building that was destroyed by fire during construction.

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

**Management's Discussion and Analysis (continued)
June 30, 2010**



Community Development expenses, representing costs incurred on public and private capital project activities/programs, of \$162,421,000 or 40% of Agency's total governmental expenses increased by a net amount of \$27,184,000 or 20% from last year. The increase was mainly due to the effect of SERAF payment of \$62,248,000, reduction to expenses due to sale of capital assets in the amount of \$7,300,000, and scale down in capital projects by \$29,636,000.

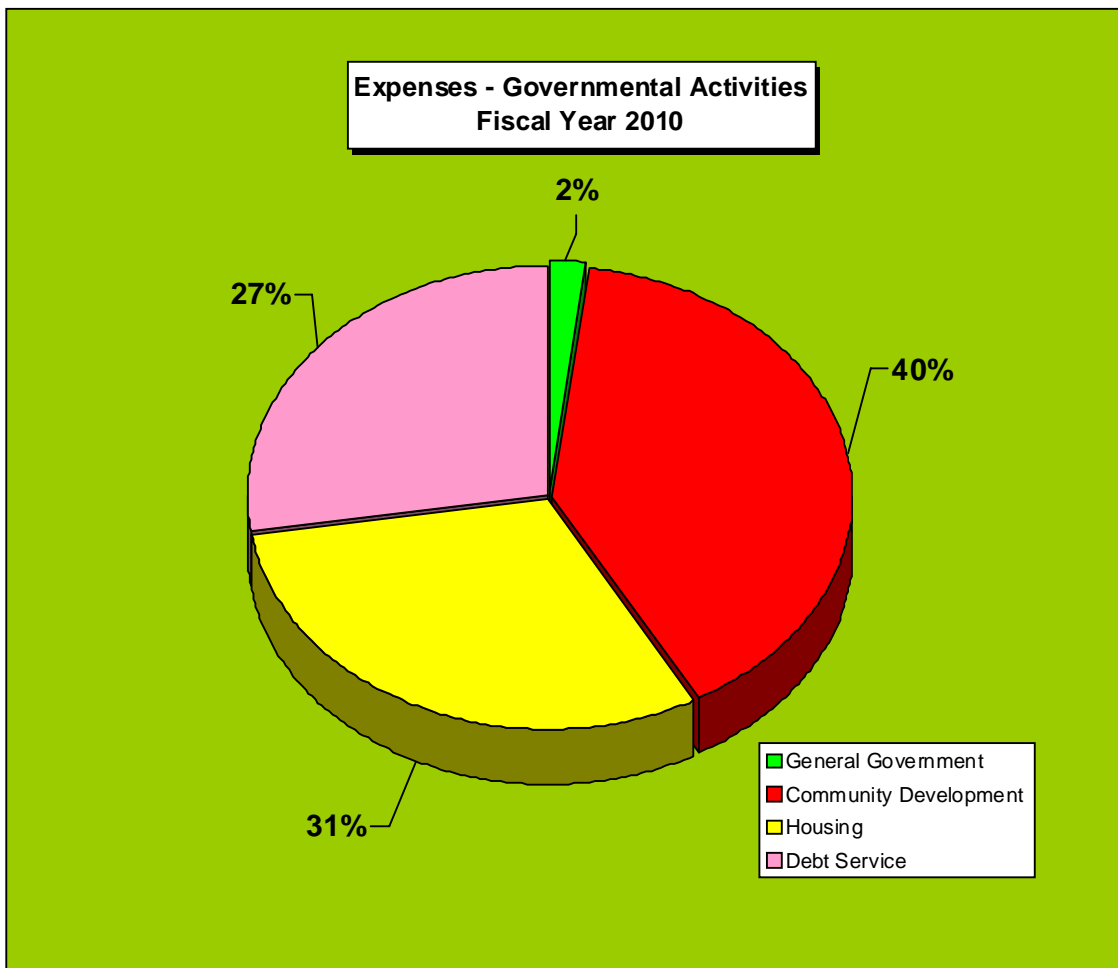
Housing expenses of \$123,599,000, which represent approximately 31% of Agency's total governmental expenses, increased by a net amount of \$33,130,000 or 37% from last year. The increase was mainly due to a larger transfer of funds to the City during the year; current year transfer to the City includes \$82,713,000 that was taken out from the proceeds of the 2010 Housing Bonds, Series C while last year, only \$50,000,000 was transferred to the City that was taken out from the drawdown of the housing letter of credit.

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

Debt Service expenses which represent 27% of the total governmental expenses, increased by a minimal of \$175,000 or 0.16%. The increase is due to the costs of issuance and debt service interest payments of Housing Set-Aside Tax Allocation Bonds, Series 2010 A, B & C.

Total General Government expenses decreased by \$174,000 or 2% from last year. The decrease is derived mainly from the savings on the personnel expenses due to staff layoffs in September 2009.



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

**Management's Discussion and Analysis (continued)
June 30, 2010**

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 \$189,499,000, a decrease of \$39,243,000 from last fiscal year. Of this total amount, \$22,531,000 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 (\$133,870,000); 2) to reflect the amount of assets that are long-term in nature and thus, do not represent available spendable resources (\$4,929,000); 3) to reflect the amount for low and moderate income housing activities (\$10,000,000); and 4) to liquidate contractual commitments (\$18,169,000).

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 \$2,166,000 while total fund balance was \$2,755,000. Fund transfer from the capital projects fund (\$8,200,000) to the general fund was made during the current year to cover the general and administrative expenditures, resulting in an increase of \$1,717,000 to the fund balance.

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 (\$40,482,000) 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 (\$40,482,000) 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, 2010**

Housing Debt Service Fund. The fund balance (\$19,911,000) of the Housing Debt Service Fund (20% Housing Set-Aside) increased by \$19,496,000 in the current year. The increase is the result of the 2010 Housing Set-Aside Bonds' reserve of \$9,911,000 and \$10,000,000 project funds (bond proceeds) temporarily left with the Bond Trustee (Fiscal Agent).

Merged Debt Service Fund. The fund balance (\$123,959,000) of the Merged Debt Service Fund decreased by \$29,025,000. The decrease was mainly due to the transfer of funds from the Capital Projects Fund of \$5,832,000 during the year, as compared to \$30,546,000 of funds transferred last fiscal year.

Capital Projects Fund. The fund balance in the Agency's capital projects fund had a net decrease of \$31,431,000 from last fiscal year. This net decrease is mainly attributed to the decrease in total revenues of \$6,144,000 and no debt proceeds from tax allocation bonds this year, compared to \$61,356,000 last year, offset by the net decrease in capital project costs of \$36,200,000.

Total capital outlay expenditures of \$60,803,000, which represents approximately 33% of the total expenditures of the Agency's capital projects fund, decreased by \$13,336,000 or approximately 18% when compared to last year's activity. The decline is due to the Agency's deferral and elimination of several capital projects and programs as a result of declining tax increment revenue, and the SERAF payment to the County. The reduction in capital projects and program activities impacted the Agency's operations and resulted in staff layoffs of nearly 25% of the entire workforce (for the general fund and capital projects fund), resulting in savings of \$1,135,000 in the capital projects fund.

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 adopted budget was approved by the Board during the year, as follows:

- Budget for personnel services decreased by \$282,000 or 7%
- Budget for non-personnel decreased by \$166,000 or 42%.

The decrease in the original budget for personnel and non-personnel services was the result of staff layoffs in September 2009 with nearly 25% of the Agency entire workforce (as stated earlier) was eliminated.

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

The total expenditures on the budgetary basis (\$7,579,000) in the general fund is lower by \$365,000 or 5% when compared with the final budget of \$7,945,000. The decrease was mainly due to the savings of \$318,000 from vacant and eliminated positions as a result of staff layoffs in September 2009.

Capital Assets

Accumulated Redevelopment Project Costs

The Agency's investment in properties for redevelopment projects for its governmental activities decreased by \$13,258,000 or 9%. Of the net costs of \$136,468,000, 86% represents land (\$117,113,000) and 14% represents construction in progress (\$19,355,000).

Major activities during Fiscal year 2009-10 included the following:

- Acquisition of land for future redevelopment projects with a total cost of \$6.6 million.
- Construction in progress of \$11.1 million.
- Land held for redevelopment that was transferred and sold to developers for \$25.9 million.

At June 30, 2010, the Agency had contractual commitments of approximately \$6.2 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 \$22,949,000,
- 2) Five buildings with aggregated net book value of \$151,822,000,
- 3) Improvements to four public buildings and facilities with a total net book value of \$27,567,000 ,
- 4) Parking garage located beneath the Fairmont Plaza Hotel in downtown San José with net book value of \$4,375,000,
- 5) Leasehold improvements on retail sites at the Fairmont Plaza Hotel – Annex with a net book value of \$1,477,000, and
- 6) Equipment with a net book value of \$478,000.

Major changes during the year include additional costs incurred on the expansion of the San Jose McEnery Convention Center, Civic Auditorium Phase I and II Project improvement and improvement to MACLA/Movimiento de Arte y Cultura Latino Americana aggregating to

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

\$10,091,000. Additional information about the Agency's capital assets can be found on pages 51 - 53 of the notes to the financial statements.

Debt Administration

At June 30, 2010, the Agency had long-term bonds and notes outstanding aggregating to \$2,524,034,000. Of this amount, \$2,107,575,000 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)	\$ 1,757,730
Housing Set-Aside bonds	349,845
Sub Total - Senior Debt	<u>2,107,575</u>
Subordinated Debt	
Merged Area Revenue Bonds	100,000
Convention Center Refunding Bonds	145,895
4th/San Fernando Parking Revenue Bonds	
Pledge Obligation	36,710
California Statewide Communities Development Authority (CSCDA) ERAF Loans	20,735
HUD Section 108 Loans	33,000
City of San José Parking Fund Loan	8,483
City of San José Parkland Fees Advances	8,112
City of San José SERAF Loan	62,735
City of San José Autumn Property	630
Other obligations	<u>1,817</u>
Sub Total - Subordinated Debt	<u>418,117</u>
Unamortized issuance premium/deferred amount on refunding	<u>(1,658)</u>
Total Debt	<u><u>\$ 2,524,034</u></u>

During the year, the following tax allocation bonds were issued for housing projects:

- Tax Allocation Tax Exempt Housing Bonds Series 2010 A for \$56,710,000
- Tax Allocation Tax Exempt Housing Bonds Series 2010 B for \$10,695,000
- Tax Allocation Tax Exempt Housing Bonds Series 2010 C for \$93,000,000

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

Bond rating agencies comprised of Moody's Investor Services, Inc., Standard & Poor's Ratings Services and Fitch's Ratings have assigned the 2010 Bonds ratings of 'A1', 'A', and 'A', respectively.

Additional information about the Agency's long-term obligations is available on pages 55 to 66 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 fiscal year 2010-2011:

- 7.3% decline in assessed valuation of properties in the tax generating project areas, per County of Santa Clara Assessor.
- For the quarter ending June 30, 2010, vacancy rates in San José according to Collier International, a commercial/industrial real estate management firm, were approximately 24.3% for office sector, 9.8% for the industrial sector, 10.2% for warehouse sector, and 25.6% for R&D.
- Unemployment rate of 12.5% at June 2010 in San José was reported by California Employment Development Department (EDD). This is higher than the State's unemployment rate of 12.2% (per EDD) and higher than the national average unemployment rate of 9.5% (US Department of Labor) for the same period.
- Payment of approximately \$12.8 million by May 10, 2011 to the State's Supplemental Educational Revenue Augmentation Fund (SERAF) as a way to reduce the State's budget gap.
- Reduction of the Agency's workforce in September 2010 by fourteen due staff layoffs and elimination of six unfilled positions, dropping the Agency's workforce to 64 positions or by 45%.
- A Liquidity Reserve Requirement in the amount of \$5 million to be deposited with JP Morgan Chase as an added source of security for the Letters of Credit supporting the 2003 and 1996 Revenue Bonds.

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

**Management's Discussion and Analysis (continued)
June 30, 2010**

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., 14th Floor, San José, CA 95113. Additional financial data may also be found on the Agency's website (www.sjredevelopment.org/finance.htm).



Internal Rectifier – North San Jose

Eco Offsite – Monterey Corridor

BASIC FINANCIAL STATEMENTS

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Statement of Net Assets

Governmental Activities

June 30, 2010

ASSETS

Cash and investments (Note II.A)	\$	55,660,076
Receivables:		
Accrued interest		174,978
Grants		81,393
Due from the City of San José		22,222
Other		1,609,587
Advances to the City of San José (Note III.C)		1,080,362
Loans receivable, net (Note II.B)		32,835,817
Deposits		266,857
Deferred charges, net		35,658,740
Restricted assets:		
Cash and investments (Note II.A)		192,041,555
Accrued interest receivable		64,907
Capital assets:		
Accumulated redevelopment project costs (Note II.E):		
Nondepreciable		136,467,509
Other capital assets (Note II.F):		
Nondepreciable		22,949,061
Depreciable, net		185,718,764
Total assets		<u>664,631,828</u>

LIABILITIES

Accounts payable and accrued liabilities (Note II.G)		7,811,957
Due to the City of San José		1,360,211
Due to other governmental agencies		3,648,518
Due to the County of Santa Clara (Note III.D)		47,210,813
Unearned revenue (Note II.C)		3,314,932
Liabilities payable from restricted assets:		
Deposits, retentions, and other payables		1,699,765
Accrued interest payable		42,762,738
Long-term liabilities (Note II.H):		
Due within one year		76,674,239
Due in more than one year		2,447,359,744
Total liabilities		<u>2,631,842,917</u>

NET ASSETS

Invested in capital assets, net of related debt (Note II.I)		17,075,334
Restricted for (Note II.I):		
Debt service		91,107,032
Low and moderate income housing activities		10,000,000
Unrestricted deficit (Note II.I)		(2,085,393,455)
Total net deficit	\$	<u>(1,967,211,089)</u>

See accompanying notes to the basic financial statements.

Redevelopment Agency of the City of San Jose
Statement of Activities
Governmental Activities
For the Fiscal Year Ended June 30, 2010

	Total	Functions			
		General Government	Community Development	Housing	Debt Service
Expenses:					
Salaries, wages and benefits	\$ 13,638,492	\$ 3,513,356	\$ 10,125,136	\$ -	\$ -
Materials, supplies and other services	4,486,774	3,989,850	496,924	-	-
Project expenses	268,863,573	-	145,264,851	123,598,722	-
Depreciation	6,533,785	-	6,533,785	-	-
Interest on debt	110,762,278	-	-	-	110,762,278
Total expenses	<u>404,284,902</u>	<u>7,503,206</u>	<u>162,420,696</u>	<u>123,598,722</u>	<u>110,762,278</u>
Program revenues:					
Charges for services	1,175,949	894,771	281,178	-	-
Operating grants and contributions	82,270,696	-	14,665,750	67,604,946	-
Capital grants and contributions	3,971,758	-	3,971,758	-	-
Net program expense	<u>(316,866,499)</u>	<u>\$ (6,608,435)</u>	<u>\$ (143,502,010)</u>	<u>\$ (55,993,776)</u>	<u>\$ (110,762,278)</u>
General revenues:					
Tax increment	202,409,366				
Unrestricted investment earnings	1,898,810				
Miscellaneous	7,492,743				
Total general revenues	<u>211,800,919</u>				
Change in net assets	<u>(105,065,580)</u>				
Net deficit, beginning of year	<u>(1,862,145,509)</u>				
Net deficit, end of year	<u>\$ (1,967,211,089)</u>				

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Balance Sheet
Governmental Funds
June 30, 2010

	General	Special Revenue	Debt Service		Capital Projects	Total
			Housing	Merged		
ASSETS						
Cash and investments (Note II.A)	\$ 2,962,951	\$ -	\$ -	\$ -	\$ 52,697,125	\$ 55,660,076
Receivables:						
Accrued interest	-	-	-	-	174,978	174,978
Due from other funds (Note II.D)	-	-	-	-	21,076	21,076
Due from the City of San Jose	-	21,076	-	-	1,146	22,222
Grants	-	-	-	-	81,393	81,393
Others	25,391	-	-	-	1,584,196	1,609,587
Advances to the City of San Jose (Note III.C)	500,000	-	-	-	580,362	1,080,362
Loans receivable, net (Note II.B)	-	-	-	-	32,835,817	32,835,817
Deposits	12,744	-	-	-	254,113	266,857
Restricted assets:						
Cash and investments (Note II.A)	-	-	19,925,593	123,893,870	48,222,092	192,041,555
Accrued interest	-	-	-	64,907	-	64,907
TOTAL ASSETS	\$ 3,501,086	\$ 21,076	\$ 19,925,593	\$ 123,958,777	\$ 136,452,298	\$ 283,858,830
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities (Note II.G)	\$ 726,827	\$ -	\$ 14,600	\$ -	\$ 7,070,530	\$ 7,811,957
Due to other funds (Note II.D)	-	21,076	-	-	-	21,076
Due to the City of San Jose	-	-	-	-	1,360,211	1,360,211
Due to the County of Santa Clara (Note III.D)	-	-	-	-	47,210,813	47,210,813
Deferred revenue (Note II.C)	7,113	-	-	-	29,285,514	29,292,627
Unearned revenue (Note II.C)	-	-	-	-	3,314,932	3,314,932
Deposits, retentions, and other payables	11,935	-	-	-	1,687,830	1,699,765
Due to other governmental agencies	-	-	-	-	3,648,518	3,648,518
Total liabilities	<u>745,875</u>	<u>21,076</u>	<u>14,600</u>	<u>-</u>	<u>93,578,348</u>	<u>94,359,899</u>
Fund balances:						
Reserved for (Note II.I):						
Long-term receivables	-	-	-	-	3,582,304	3,582,304
Advances and deposits	512,744	-	-	-	834,475	1,347,219
Debt service	-	-	9,910,993	123,958,777	-	133,869,770
Low and moderate income housing activities	-	-	10,000,000	-	-	10,000,000
Encumbrances	76,207	-	-	-	18,092,711	18,168,918
Unreserved, designated for redevelopment activities (Note II.I)	2,166,260	-	-	-	20,364,460	22,530,720
Total fund balances	<u>2,755,211</u>	<u>-</u>	<u>19,910,993</u>	<u>123,958,777</u>	<u>42,873,950</u>	<u>189,498,931</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,501,086	\$ 21,076	\$ 19,925,593	\$ 123,958,777	\$ 136,452,298	\$ 283,858,830

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, 2010

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

Fund balances of all governmental funds (page 33)	\$ 189,498,931
Accumulated redevelopment project 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.	136,467,509
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.	208,667,825
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.	29,292,627
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.	35,658,740
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	\$ (2,107,575,000)
Revenue bonds	(100,000,000)
Convention Center refunding bonds	(145,895,000)
Pledge obligation (4th/San Fernando Parking Revenue Bonds)	(36,710,000)
ERAF Loan	(20,735,000)
HUD Section 108 loans	(33,000,000)
City of San José Parking Fund loan	(8,482,899)
City of San José Deferred Parkland Fees loan	(8,111,800)
City of San José SERAF Loan	(62,734,588)
City of San José Autumn Property Loan	(630,000)
Environmental remediation obligations	(280,000)
Compensated absences	(1,536,665)
Unamortized premiums on bonds	(45,757,513)
Unamortized deferred amount on refundings	47,414,482
	<hr/>
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.	<hr/> (42,762,738) <hr/>
Net deficit of governmental activities (page 31)	<hr/> <u>\$ (1,967,211,089)</u> <hr/>

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 Funds
For the Fiscal Year Ended June 30, 2010

	General	Special Revenue	Debt Service		Capital Projects	Total
			Housing	Merged		
REVENUES						
Tax increment	\$ -	\$ 40,481,873	\$ -	\$ 125,530,507	\$ 36,396,986	\$ 202,409,366
Intergovernmental (Note III.C)	-	-	67,604,946	-	18,162,381	85,767,327
Investment income	36,474	-	334	720,716	1,141,286	1,898,810
Rent	894,771	-	-	-	281,178	1,175,949
Grant revenue	-	-	-	-	475,127	475,127
Other	88,707	-	-	-	7,303,962	7,392,669
Total revenues	<u>1,019,952</u>	<u>40,481,873</u>	<u>67,605,280</u>	<u>126,251,223</u>	<u>63,760,920</u>	<u>299,119,248</u>
EXPENDITURES						
General government	3,559,512	-	-	-	12,048,252	15,607,764
Intergovernmental:						
Payments to the City of San Jose (Note III.C)	3,943,694	40,481,873	83,116,849	-	15,019,966	142,562,382
Payments to the County of Santa Clara (Note III.D)	-	-	-	-	88,121,146	88,121,146
Payments to other governmental agencies	-	-	-	-	3,648,518	3,648,518
Debt service:						
Principal repayment	-	-	57,095,000	60,565,000	-	117,660,000
Interest and other charges	-	-	10,520,798	100,543,427	-	111,064,225
Bond/other loan issuance costs	-	-	1,068,056	-	212,886	1,280,942
Capital outlay:						
Project expenditures	-	-	-	-	51,786,809	51,786,809
Payments to the City of San Jose (Note III.C)	-	-	-	-	9,016,360	9,016,360
Total expenditures	<u>7,503,206</u>	<u>40,481,873</u>	<u>151,800,703</u>	<u>161,108,427</u>	<u>179,853,937</u>	<u>540,748,146</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(6,483,254)</u>	<u>-</u>	<u>(84,195,423)</u>	<u>(34,857,204)</u>	<u>(116,093,017)</u>	<u>(241,628,898)</u>
OTHER FINANCING SOURCES (USES)						
Bonds issued	-	-	160,405,000	-	-	160,405,000
Premium on bonds issued	-	-	21,474	-	-	21,474
Proceeds from City's loan/advances	-	-	-	-	65,047,487	65,047,487
Payment to refunded bond escrow agent	-	-	(56,735,000)	-	-	(56,735,000)
Proceeds from sale of capital assets	-	-	-	-	33,646,966	33,646,966
Transfers in (Note II.D)	8,200,000	-	-	5,832,049	-	14,032,049
Transfers out (Note II.D)	-	-	-	-	(14,032,049)	(14,032,049)
Total other financing sources (uses)	<u>8,200,000</u>	<u>-</u>	<u>103,691,474</u>	<u>5,832,049</u>	<u>84,662,404</u>	<u>202,385,927</u>
NET CHANGE IN FUND BALANCES	<u>1,716,746</u>	<u>-</u>	<u>19,496,051</u>	<u>(29,025,155)</u>	<u>(31,430,613)</u>	<u>(39,242,971)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>1,038,465</u>	<u>-</u>	<u>414,942</u>	<u>152,983,932</u>	<u>74,304,563</u>	<u>228,741,902</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,755,211</u>	<u>\$ -</u>	<u>\$ 19,910,993</u>	<u>\$ 123,958,777</u>	<u>\$ 42,873,950</u>	<u>\$ 189,498,931</u>

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, 2010

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

Net change in fund balances of all governmental funds (Page 35) \$ (39,242,971)

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 developer 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	\$ 17,622,935	
Costs capitalized related to acquisition of various capital assets	10,091,237	
Disposal of capitalized costs related to transfer of capital assets	(31,334,930)	
Depreciation expense	<u>(6,533,785)</u>	(10,154,543)

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	646,631	
Loans collected during the year	(546,557)	
Loans written off as a result of transfer of ownership of a property	<u>(3,884,858)</u>	(3,784,784)

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.

Long-term liability expended in the Fund Statement	(55,000)	
Change in long-term compensated absences	<u>291,650</u>	236,650
Long-term claimed expended in the Fund Statement		

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	1,280,942	
Amortization of bond issuance costs	<u>(2,623,860)</u>	(1,342,918)

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	108,335,000	
Convention Center refunding bonds	7,415,000	
Revenue bonds	2,900,000	
Pledge obligation (4th/San Fernando Parking Revenue Bonds)	1,545,000	
Housing line of credit	50,000,000	
ERAF Loan	3,245,000	
HUD Section 108 loans	<u>955,000</u>	174,395,000

(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 Fiscal Year Ended June 30, 2010

(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

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 or 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 or refunding not reported in governmental funds:

Decrease in accrued interest expense	\$	280,237	
Amortization of bond premiums		3,927,883	
Amortization of deferred amounts on refunding		(3,906,173)	\$ 301,947

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.

Proceeds were received from:

SERAF and other loans from City of San Jose		(65,047,487)	
Issuance of Housing Set-aside Tax Allocation Bonds including the issuance premium		(160,426,474)	(225,473,961)

Change in net assets of governmental activities (page 32)		\$	(105,065,580)
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**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements
June 30, 2010**

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 JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 January 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 members. 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 JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 resources are available, unrestricted resources are used only after the restricted resources related to bond proceeds and 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 JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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. In addition, the fund holds unspent debt proceeds that are transferred to the City upon request to fund low and moderate housing activities.
- 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

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

comparable 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 Agency participates in the Teeter Plan offered by the County of Santa Clara. Under the Teeter Plan, the County apportions secured property and supplemental property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the Agency, for which the County acts as the tax-levying or tax-collecting agency. In return, the County then receives all future delinquent payments, penalties and interest.

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, under the Teeter Plan. Revenue is recognized when it is levied and received from the County, as discussed under section of Basis of Accounting.

3. Restricted Assets

Assets are restricted for specified uses by bonded debt requirements, grant provisions or other requirements 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.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 nondepreciable 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 and can be carried over with no limit.

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.

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

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

applicable premiums, discounts, and deferred amounts on refunding. The premiums, discounts, and deferred amounts on refunding are amortized as a component of the interest expense.

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 governmental 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, 2010:

<u>Cash and Investments</u>	<u>Amount</u>
Unrestricted	\$ 55,660,076
Restricted	192,041,555
Total cash and investments	<u>\$ 247,701,631</u>

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

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 following table identifies the investment types that are authorized for the City by the California Government Code and Policy, if more restrictive:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Dollar of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Bankers' Acceptances	180 days	25%	5%
Insured Time Deposits	3 years	\$10 million	5%
Uninsured Time Deposits	18 months	\$10 million	5%
Commercial Paper	270 days	20%	5%
Negotiable Certificates of Deposit	180 days	25%	5%
Repurchase Agreements	10 days	None	None
Reverse Repurchase Agreements	30 days	\$25 million or 20% (Which ever is less)	None
Corporate Notes	3 years	15%	5%
Local Agency California Investment Fund	None	None	None
Money Market Mutual Funds	None	15%	5%
California Municipal Bonds - Category 1	5 years	15%	5%
California Municipal Bonds - Category 2	5 years	5%	5%
California Municipal Bonds - Category 3	5 years	10%	5%
Investment Agreements	None	None	None

The Agency maintains most 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, 2010, basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th 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 balance of \$55,671,142, 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.

In addition, the Agency also invested approximately \$23,207,000 of its available funds with a local bank in certificates of deposit. Also, the Agency has additional certificates of deposit totaling \$3,259,00 held with fiscal agents (see notes on Restricted Deposits in the Capital Projects Fund).

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

As of June 30, 2010, the Agency invested a total amount of \$48,827,123 with State of California Local Agency Investment Fund (LAIF), which is comprised of \$12,442,538 from the 2003 Tax Allocation Bonds reserve fund, \$5,405,811 from the 2008 Tax Allocation Bond's capitalized interest, and \$21,078,774 in project funds from the 2008 Tax Allocation Bonds, and \$9,900,000 from the proceeds of the 2010 Housing Set-Aside Bonds. Structured notes and asset-backed securities make up 5.42% of the State's LAIF portfolio. 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

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the Agency and City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the Agency's name or City's name, in the case of Agency's investment with the City Pool Investment.

As of June 30, 2010, \$27,529,605 of the Agency's bank balance was exposed to custodial credit risk because it was uninsured beyond the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit of \$250,000, but collateralized by the pledging financial institutions as required by Section 52652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent, but not in the Agency's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investment or collateral securities that are in possession of another party. The Agency invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the Agency employs the trust department of a bank or trustee as the custodian of certain Agency investments, regardless of their form.

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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair 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 limiting the weighted average maturity of its investment portfolio with the City Pool Investment to 122 days.

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, 2010, \$31,573,270 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's policy to limit its investments in this investment type to the top rating issued by NRSROs. As of June 30, 2010, the Agency's investment in commercial paper includes investment with General Electric Capital Corp (20%) which exceeded the 5% concentration risk threshold (total investments with fiscal agent), but it is a permitted investment under the bond indenture.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

A summary of the Agency's investments at June 30, 2010 is as follows:

Type of Investment	Credit Rating	Maturity			Fair Value
		Under 30 days	31 - 180 days	181 - 365 days	
City of San Jose Cash and Investment Pool	Unrated	\$ -	\$ 55,671,142	\$ -	\$55,671,142
State of California Local Agency Investment Fund	Unrated	-	-	48,827,123	48,827,123
Federal Home Loan Bank	Aaa / Prime - 1	-	-	2,662,460	2,662,460
US Treasury Bills	Aaa / Prime - 1	57,243,557	-	11,250,291	68,493,848
Money Market Mutual Fund	Aaa	-	13,341,536	-	13,341,536
Commercial Paper	A1/P1/F1	31,573,270	-	-	31,573,270
Subtotal		<u>\$ 88,816,827</u>	<u>\$ 69,012,678</u>	<u>\$ 62,739,874</u>	<u>\$ 220,569,379</u>
Certificates of Deposit					26,466,464
Cash deposits					662,288
Petty cash					3,500
Grand Total					<u><u>\$247,701,631</u></u>

Restricted Cash and 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 temporary investments for unexpended bond proceeds. These accounts are reported in debt service funds. As of June 30, 2010, the amounts held by the trustees aggregated to \$143,819,463 in compliance with amounts required to be held by the trustee. All restricted investments held by trustees as of June 30, 2010 were invested in federal agency notes, US treasury bills, commercial paper, money market mutual funds and LAIF, and were in compliance with the bond indentures. Of this balance, \$10,000,000 is being held for use in low and moderate housing activities by the City.

Restricted Deposits in the Capital Projects Fund

In prior years, unspent non-taxable bond proceeds included in LAIF and other separate non-fiscal agent accounts were classified as unrestricted cash and investments. In the current year, unspent tax-exempt bond proceeds invested in LAIF and certificates of deposit totaling \$44,963,000 have been classified as restricted cash and investments as the funds are restricted based on the terms of the bond indentures. The bond indenture states that the bond proceeds are to be used to finance capital redevelopment projects within or to benefit the Agency's Merged Area Redevelopment Project, thus the funds are available for spending on eligible projects in the redevelopment project areas at any time.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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, 2010, are as follows:

Project/Program	Amount
Dr. Martin Luther King, Jr Library	\$ 2,286,447
The 88 Tower	670,580
Miscellaneous Redevelopment Projects	302,081
Total other restricted deposits	\$ 3,259,108

B. Loans Receivable

Composition of loans receivable as of June 30, 2010, is as follows:

Description	Loan Balance
1 Parcels of land sold to developers	\$ 2,098,417
2 HUD Section 108 loans	3,442,501
3 Grocery store improvement loan	750,909
4 Rehabilitation of apartment complex	486,029
5 Historic homes relocation loans	4,072,514
6 Rehabilitation of residential units	179,243
7 Commercial building loans	8,435,231
8 Residential housing projects	16,543,506
9 Rehabilitation of historic hotel building	5,265,000
10 Small business loan program	492,018
Total loans	41,765,368
Accrued interest receivable	3,922,289
Total loans and interest receivable	45,687,657
Less allowance for doubtful accounts	(12,851,840)
Loans and interest receivable, net	\$ 32,835,817

1.) Over the years, parcels of land have been sold to commercial real estate developers in various mixed-use projects. In one downtown residential condominium project, a non-interest bearing promissory note was recorded in 2007 whereby the Agency deferred a portion of the land sale until the first residential unit closed escrow. As of June 30, 2010, the amount due from the developer was \$2,098,417. A 100% provision for doubtful accounts was provided for the entire loan balance.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 payments to the Agency on a monthly basis. As of June 30, 2010, the amount due from the developers was \$3,442,501.

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 \$750, 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, 2010, the amount due from the developer was \$486,029.

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 \$4,072,514 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, 2010, the net amount due from such loans was \$179,243. 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, 2010, the total amount due from such loans was \$8,435,231. An allowance for doubtful accounts in the amount of \$645,000 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, 2010, the amount due from the developers was \$16,543,506.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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-annual basis starting in fiscal year 2020-2021. As of June 30, 2010, 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, 2010, the outstanding loans totaled \$492,018.

C. Deferred Revenue and Unearned Revenue

At June 30, 2010, the various components of deferred revenue and unearned revenue reported in the governmental funds and governmental activities were as follows:

	<u>Amount</u>
Amounts considered unavailable (deferred revenue), as reported in the fund financial statements:	
Related to loans receivable	\$ 29,292,627
Amounts considered unearned:	
Related to developers contributions	\$ 2,740,681
Related to other long-term receivables	574,251
Total unearned revenue, as reported in the fund financial statements	\$ 3,314,932

D. Interfund Balances and Transactions

The composition of borrowing between funds for the fiscal year ended June 30, 2010, is as follows:

Due from Other Funds:	Due to Other Funds:	Amount
Capital Projects Fund	Special Revenue Fund	\$21,076

The \$21,076 represents the amount to be returned to the Agency by the City’s Housing Department from its low-moderate income housing funds, as a result of County’s over remittance of supplemental assessments in the month of June 2010.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

The composition of interfund transfers for the fiscal year ended June 30, 2010, is as follows:

Transfer-In Fund	Transfer-out Fund	Amount
Merged Debt Service Fund	Capital Projects Fund	\$ 5,832,049
General Fund	Capital Projects Fund	<u>8,200,000</u>
Total		<u>\$ 14,032,049</u>

As listed in the above, the \$5,832,049 represents the net transfers from capital projects fund necessary to make required debt service payments and the \$8,200,000 represents transfers to general fund to cover general and administrative expenditures.

E. Capital Assets - Accumulated Redevelopment Project Costs

For the fiscal year ended June 30, 2010, the change in accumulated redevelopment project costs consisted of the following:

	June 30, 2009	Addition	Disposition/ Transfer	June 30, 2010
Nondepreciable:				
Land held for redevelopment	\$136,459,277	\$6,567,402	\$ (25,914,171)	\$117,112,508
Construction in progress	8,299,468	11,055,533	-	19,355,001
Total Non depreciable	<u>144,758,745</u>	<u>17,622,935</u>	<u>(25,914,171)</u>	<u>136,467,509</u>
Depreciable:				
Building	5,160,000	-	(5,160,000)	-
Total Depreciable	<u>5,160,000</u>	<u>-</u>	<u>(5,160,000)</u>	<u>-</u>
Less: accumulated depreciation				
Building	193,500	-	(193,500)	-
Total Depreciable, net	<u>4,966,500</u>	<u>-</u>	<u>(4,966,500)</u>	<u>-</u>
Total Accumulated Project Costs, Net	<u>\$149,725,245</u>	<u>\$17,622,935</u>	<u>\$ (30,880,671)</u>	<u>\$ 136,467,509</u>

During the year, parcels of land with a cost aggregating to \$6,567,402 located in the Agency's Merged Project Area were acquired for future development. Other redevelopment project costs totaling \$11,055,533 were added during the current year, which include Edenvale Community Center (\$10,142,403) and other projects (\$913,130).

During the current year, land held for redevelopment aggregating to \$25,914,171, which includes Block 8 (\$11,734,825), Adobe (\$9,370,115), Church of Christ (\$3,527,472) and Block 2 (\$1,281,759) were transferred to developers in accordance with Disposition and Development, Sale and Purchase Agreements in exchange for monetary consideration.

The cost of the Globe Parking Garage totaling \$5,160,000, less accumulated depreciation of \$193,500, was transferred to the City during year.

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**Notes to the Basic Financial Statements (continued)
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Construction in progress as of June 30, 2010, consisted of the following:

Edenvale Community Center	\$	14,934,744
4th Street Garage Parking - Tenant's Improvement		2,056,567
Brandenburg Street Realignment		976,696
St. James Park Improvements		272,670
Others		1,114,324
Total construction in progress	<u>\$</u>	<u>19,355,001</u>

F. Other Capital Assets

A summary of changes in the Agency's other capital assets for the fiscal year ended June 30, 2010, is as follows:

	<u>June 30, 2009</u>	<u>Addition</u>	<u>Disposition/ Transfer</u>	<u>June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 23,403,320	\$ -	\$ (454,259)	\$ 22,949,061
Capital assets, being depreciated:				
Buildings	167,856,221	-	-	167,856,221
Building improvements	20,942,404	10,091,237	-	31,033,641
Parking structure	10,000,000	-	-	10,000,000
Leasehold improvements	1,888,250	-	-	1,888,250
Equipment	1,144,956	-	-	1,144,956
Total capital assets, being depreciated	<u>201,831,831</u>	<u>10,091,237</u>	<u>-</u>	<u>211,923,068</u>
Less accumulated depreciation:				
Buildings	11,742,223	4,292,024	-	16,034,247
Building improvements	1,734,321	1,732,535	-	3,466,856
Parking structure	5,375,000	250,000	-	5,625,000
Leasehold improvements	331,740	79,922	-	411,662
Equipment	487,235	179,304	-	666,539
Total accumulated depreciation	<u>19,670,519</u>	<u>6,533,785</u>	<u>-</u>	<u>26,204,304</u>
Total capital assets, being depreciated, net	<u>182,161,312</u>	<u>3,557,452</u>	<u>-</u>	<u>185,718,764</u>
Total capital assets, net	<u>\$ 205,564,632</u>	<u>\$ 3,557,452</u>	<u>\$ (454,259)</u>	<u>\$ 208,667,825</u>

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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	\$ 7,523,135	\$ 66,811,600
Dr. Martin Luther King, Jr. Library (New)	-	64,785,278	64,785,278	6,644,644	58,140,634
Billy DeFrank Community Center	2,077,461	1,070,435	3,147,896	107,044	3,040,852
Jose Theatre	845,820	7,155,774	8,001,594	733,924	7,267,670
Block 3 - Central Place Parking Garage	-	20,510,000	20,510,000	1,025,500	19,484,500
Convention Center Expansion-South Hall	20,025,780	7,149,195	27,174,975	1,604,723	25,570,252
Convention Center Phase I Expansion	-	16,140,013	16,140,013	1,397,943	14,742,070
Civic Auditorium	-	7,482,947	7,482,947	446,707	7,036,240
Hotel Parking Garage Structure	-	10,000,000	10,000,000	5,625,000	4,375,000
Fairmont Annex Retail Improvement	-	1,888,250	1,888,250	411,663	1,476,587
San Jose Stage	-	107,985	107,985	10,799	97,186
MACLA/Moviento de Arte y Cultura Latino Americana	-	153,500	153,500	6,683	146,817
Equipment	-	1,144,956	1,144,956	666,539	478,417
Total	<u>\$ 22,949,061</u>	<u>\$ 211,923,068</u>	<u>\$ 234,872,129</u>	<u>\$ 26,204,304</u>	<u>\$ 208,667,825</u>

The José 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 \$5,120,508 for the Convention Center Phase I Expansion, \$4,805,093 for the Civic Auditorium, \$130,000 for MACLA/Movimiento de Arte y Cultura Latino Americana, and \$35,636 for Convention Center Expansion-South Hall. Also, during the year, parcels of land (Boston Properties, \$454,259) within the proximity of Convention Center were transferred to developers in accordance with Disposition and Development Agreements.

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, 2010, are as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Accounts payable	\$ 450,096	\$ 14,600	\$ 6,983,030	\$ 7,447,726
Accrued salaries and benefits	276,731	-	87,500	364,231
Total	<u>\$ 726,827</u>	<u>\$ 14,600</u>	<u>\$ 7,070,530</u>	<u>\$ 7,811,957</u>

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

H. Debt

Long-term Debt

The following is a summary of bonds and loans payable of the Agency as of June 30, 2010 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Range Interest Rate	Annual Principal Installments	June 30, 2010 Balance
Tax Allocation Bonds (TAB):							
1993 Merged Refunding	Advanced refunding Merged Area projects	\$692,075	12/1/1993	8/1/2015	6.00%	\$11,595-18,195	\$46,650
1997 Merged	Merged Area projects	106,000	3/27/1997	8/1/2028	5.38-5.63%	\$10-715	6,400
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	projects	135,000	12/22/2003	8/1/2033	4.00-5.00%	\$25-34,100	127,545
2004 A Merged	Refund portion of TABs	281,985	5/27/2004	8/1/2019	4.23-5.25%	\$8,775-31,900	222,525
2005 A/B Merged	Refund portion of TABs				3.50-5.00%	\$115--26,210	
2006 A/B Merged	Merged Area projects	220,080	7/26/2005	8/1/2028	4.50-5.65%	\$1,000-21,000	214,995
2006 C/D Merged	Refund portion of TABs	81,300	11/14/2006	8/1/2035	3.75-5.00%	\$450-74,280	
2007 A-T/B Merged	Merged Area projects	701,185	12/15/2006	8/1/2032	4.25-5.10%	\$1,660-23,970	700,175
2008 A/B Merged	Merged Area projects	212,930	11/7/2007	8/1/2036	5.25 - 7.00%	\$3,030-29,065	209,390
1997 Housing, Series E	Low-moderate income housing	117,295	11/13/2008	8/1/2035	5.75-5.85%	\$340-3,670	114,265
2003 Housing, Series J & K	Low-moderate income housing	17,045	6/23/1997	8/1/2027	2.00-5.25%	\$2,545-16,370	17,045
2005 Housing Series A & B	Low-moderate income housing	69,000	7/10/2003	8/1/2029	3.75-5.46%	\$970-57,755	48,490
2010 Housing Series A/B-T	Low-moderate income	129,720	6/30/2005	8/1/2035	1.36-5.5%	\$500-6,305	123,905
2010 Housing Series C	Low-moderate income	67,405	4/15/2010	8/1/2035	Variable	\$2,100-4,910	67,405
		93,000	4/29/2010	8/1/2035			93,000
Total Tax Allocation Bonds							<u>\$2,107,575</u>

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

(Continued from previous page)

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Range Interest Rate	Annual Principal Installment	June 30, 2010 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	\$ 50,000
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	\$500-3,900	50,000
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	36,710
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	145,895
CSCDA 2005 ERAF Loan	Fund the State's ERAF Program	19,085	4/27/2005	8/1/2015	4.46-5.01%	\$1,785-2,355	10,725
CSCDA 2006 ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2006	8/1/2016	4.41-5.67%	\$1,305-1,905	10,010
HUD Section 108 Loans	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	\$265-465	2,670
HUD Section 108 Loans (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	\$570-1,135	13,000
HUD Section 108 Loans (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2025	Variable	\$670-1,570	17,330
City of San José Parking Fund Loan	Merged area projects	6,800	4/12/2005	7/31/2015	None	\$6,800	6,800
City of San José Parking Fund Loan	Merged area projects	1,683	2/27/2010	7/31/2015	None	\$1,683	1,683
City of San José Parkland Fees	Parkland Dedication	8,112	7/1/2007	6/30/2014	None	\$8,112	8,112
City of San José - cost of Autumn property purchased	Merged area projects	630	5/1/2010	6/30/2012	None	\$630	630
City of San José SERAF Loan	Fund the State's SERAF Payment	62,735	5/4/2010	6/30/2015	Variable	\$2,000-62,735	62,735
Total Other Long-term Debt							416,300
Total Long-term Debt							\$2,523,875

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

A summary of the changes in long-term debt during the fiscal year ended June 30, 2010 follows (in thousands):

Tax allocation bonds:	Balance June 30, 2009	Additions	Payments/ Refundings	Balance June 30, 2010	Amount Due in One Year
1993 Merged Refunding	\$ 59,680	\$ -	\$ (13,030)	\$ 46,650	\$ 13,815
1997 Merged	6,680	-	(280)	6,400	290
1998 Merged	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	242,105	-	(19,580)	222,525	20,535
2005 A & B Merged Refunding	219,855	-	(4,860)	214,995	6,615
2006 A & B Merged	80,300	-	-	80,300	-
2006 C & D Merged Refunding	700,735	-	(560)	700,175	580
2007 A-T/B Merged	211,050	-	(1,660)	209,390	1,755
2008 A & B Merged	117,295	-	(3,030)	114,265	3,140
1997 Housing, Series E	17,045	-	-	17,045	-
2003 Housing, Series J & K	52,120	-	(3,630)	48,490	3,765
2005 Housing, Series A & B	125,590	-	(1,685)	123,905	1,765
2005 Housing, Series C & D	58,515	-	(58,515)	-	-
2010 Housing, Series A & B-T	-	67,405	-	67,405	3,775
2010 Housing, Series C	-	93,000	-	93,000	2,100
Total tax allocation bonds	2,055,505	160,405	(108,335)	2,107,575	58,135
Other long-term debt:					
1996 Merged Area Revenue, Series A/B	51,600	-	(1,600)	50,000	2,000
2003 Merged Area Revenue, Series A/B	56,600	-	(6,600)	50,000	1,130
Pledge obligation – 4th/San Fernando parking revenue bonds	38,255	-	(1,545)	36,710	1,605
2001 Convention Center Refunding Bonds, Series F	153,310	-	(7,415)	145,895	8,090
CSCDA ERAF Loan	23,980	-	(3,245)	20,735	3,405
HUD Section 108 loans, variable rate loans	33,955	-	(955)	33,000	1,580
City of San José Parking Fund Loan	6,800	1,683	-	8,483	-
Housing Line of Credit	50,000	-	(50,000)	-	-
City of San Jose - SERAF Loan	-	62,735	-	62,735	-
City of San José Deferred Parkland Fees	8,112	-	-	8,112	-
City of San Jose - other advances	-	630	-	630	-
Total other long-term debt	\$ 422,612	\$ 65,048	\$ (71,360)	\$ 416,300	\$ 17,810

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

(Continued from previous page)

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Payments/ Refundings</u>	<u>June 30, 2010</u>	<u>Amount Due in One Year</u>
Total long-term debt, before premiums, discounts, and deferred amount on refunding	\$ 2,478,117	\$ 225,453	\$ (179,695)	\$ 2,523,875	\$ 75,945
Unamortized issuance premium/(discount)	49,664	21	(3,928)	45,757	3,928
Unamortized deferred amount on refunding	(51,321)	-	3,906	(47,415)	(3,576)
	<u>2,476,460</u>	<u>225,474</u>	<u>(179,717)</u>	<u>2,522,217</u>	<u>76,297</u>
Environmental land remediation obligation	225	55	-	280	70
Claims liabilities	7,500	-	(7,500)	-	-
Compensated absences	1,828	74	(365)	1,537	307
	<u>1,828</u>	<u>74</u>	<u>(365)</u>	<u>1,537</u>	<u>307</u>
Total long-term obligations	<u>\$ 2,486,013</u>	<u>\$ 225,603</u>	<u>\$ (187,582)</u>	<u>\$ 2,524,034</u>	<u>\$ 76,674</u>

The Merged Tax Allocation Bonds (TABs) 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.

Previously Issued Merged Area Tax Allocation Bonds

The Merged Area Tax Allocation Bonds (TABs), which are comprised of Series 1993, Series 1997, 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 tax increment generating redevelopment project areas constituting the Merged Area Redevelopment Project, and are equally and ratably secured on a parity with each TAB series. The total projected tax increment revenue available to repay the bonds is approximately \$3,445,839,000. These revenues have been pledged until the year 2036, the final maturity date of the bonds. Debt service payments for these TABs is payable semi-annually on February 1 and August 1. The total principal and interest remaining on these TABs is \$2,894,701,000, which is 84 percent of the total projected tax increment revenues. The tax increment revenue recognized during the fiscal year ended June 30, 2010 was \$161,927,000. The total debt service of \$131,899,000 was paid.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

1996 Merged Area 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 25, 2011 (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, 2010, was 0.17%.

2003 Merged Area 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 Merged Area 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 Merged Area Revenue Bonds are supported by two direct-pay letters of credit, which were to expire on November 26, 2010, but have been extended to November 25, 2011 (see Note III.E Subsequent Events).

The 2003 Merged Area 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, 2010, the average weekly interest rate for the 2003 bonds was 0.30%.

Housing Bonds

The Merged Area Redevelopment Housing Set-Aside TAB, which are comprised of Series 1997 E, Series 2003 J&K, Series 2005 A&B, and Series 2010 A, B & C 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 available to repay all housing debt service through the period of the bonds is approximately \$861,460,000. 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 \$556,820,000, which is 65 percent of the total projected tax increment revenues. The pledged 20% tax increment revenue recognized during the

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

fiscal year ended June 30, 2010 was \$40,482,000, where the source of total debt service of \$19,537,000 was paid.

2010 Housing Set-Aside Tax Allocation Bonds

On April 29, 2010, the Agency issued three series of housing set-aside tax allocation bonds Series 2010A (tax-exempt), Series 2010B (taxable), and Series 2010C (variable rate taxable) amounting to \$56,710,000, \$10,695,000, and \$93,000,000, respectively. The proceeds of the bonds were used to refund the Housing Set-Aside Tax Allocation Bonds, 2005 Series C&D (\$56,735,000); to pay off the term loan with Bank of New York (\$42,500,000) which was issued as an interim source of funding for the acquisition, construction or rehabilitation of low and moderate-income housing projects on behalf of the City; to make low and moderate income housing set-aside funds available to pay the California State mandated Supplemental Educational Revenue Augmentation Fund (SERAF) program costs (\$40,000,000); to fund housing set-aside projects (\$10,000,000); and to fund the reserve account and to pay the costs of issuance related to the Series 2010 Bonds. The 2010 Housing Set-Aside Tax Allocation Bonds were issued in parity with other outstanding Housing Set-Aside Tax Allocation Bonds issued by the Agency and are secured by a pledge of Housing Set-Aside Amounts, which are 20% of tax increment revenues required to be deposited into the Low and Moderate Income Housing Fund.

The principal and interest payment of the Housing Set-Aside Tax Allocation Bonds, Series 2005 C&D were supported by the Letter of Credit under a Reimbursement Agreement with Bank of New York. The Letter of Credit expired on June 29, 2009. In September 2008, Bank of New York announced that it stopped issuing new letters or line of credits in connection with municipal obligations (Credit Facilities) and that it would not renew existing credit facilities upon their expiration. The absence of finding a replacement for the letter of credit made the bonds become a term loan payable in twenty quarterly installments. This triggers the Agency to refund the Housing Set-Aside Tax Allocation Bonds, Series 2005 C&D. Due to the variable rate nature of the 2005 Housing Set-Aside Tax Allocation Bonds, the accounting recognition of the debt service savings and the economic gain (loss) could not be calculated.

The interest rates for Series 2010A range from 4.0% to 5.5% with a final maturity date of August 1, 2035. The interest rates for Series 2010B range from 1.36% to 4.88% with a final maturity date of August 1, 2015. The Series 2010C bears an interest rate at 1-month LIBOR, two London Business Days before the 1st day of each month plus 172 basis point, with a final maturity date of August 1, 2035.

The variable rate Housing Set-Aside Tax Allocation Bonds, Series 2010C were directly purchased by Wells Fargo Bank. Because the bonds were directly purchased, the bond indenture does not require a credit facility to support the debt service payments until the bank's tender date of April 29, 2013, or such other date agreed to in writing by the Agency and Wells Fargo Bank.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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, 2010, the 2006 loan has a balance of \$10,010,000, bears a fix interest rate from 4.69% to 5.67% on remaining interest payments, and matures on August 1, 2016. The 2005 loan has a balance of \$10,725,000 as of June 30, 2010, bears a fixed interest rate from 4.46% to 5.01%, 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 José 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 two 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, 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.

Due to the economic downturn and the unexpected size of the payment the Agency is required by the State to make to the Supplemental Educational Revenue Augmentation Fund ("SERAF"), the Agency has been forced to make substantial reductions to its Adopted FY2009-10 Capital and Operating Budget and its 2010-2015 Capital Improvement Program. In order to assist the Agency in remitting the amount to SERAF, the City has agreed to reimburse the Agency from the City's Parking Capital Development Fund for two years of debt service payments to be made by the Agency on the 4th Street Garage Bonds. On March 1, 2010, the City reimbursed the Agency \$1,682,999, representing the March 1st, 2010 debt service payment on the 4th Street Garage Bonds. Under the terms of the Second Amendment to the loan approved by the City Council on February 23, 2010 and finally executed on October 4, 2010, the Agency shall repay to the City the principal amount of the initial loan on or before June 30, 2015. If the principal payment is not made on or before June 30, 2015, interest will be calculated monthly on a compounded basis, at the rate earned on funds in City's Investment Portfolio No. 1 from July 1, 2007 to the final date of payment. The revised agreement further requires the Agency to pay the City the remaining loan on or before June 30, 2016, provided that the City and Agency acknowledge that an extension of the repayment due date may be necessary depending on City and Agency priorities at such time.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

4th and San Fernando Streets Parking Facility

In March 2001, the City of San José Financing Authority (the Authority), a Joint Powers Authority authorized pursuant to a Joint Exercise of Powers Agreement between the City and the Agency to borrow money for the purpose of financing the acquisition and construction of assets of the City and the Agency, of which a portion of the debt issued by the Authority is reflected as debt of the Agency - issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the 4th & 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.

No surplus parking revenue was received from the parking facility's operations to help the Agency pay the \$3,365,799 debt service during the year. As of June 30, 2010, the Agency has an outstanding obligation, per Agency Pledge Agreement, of \$36,710,000.

Convention Center Refunding

In July 2001, the City of San José Financing Authority (the Authority) issued the Convention Center Lease Revenue Refunding Bonds, Series 2001F (Tax Exempt) and Series 2001G (taxable) amounting to \$186,150,000 and \$4,580,000, respectively. The bonds were issued to refund the 1993 Revenue Bonds, Series C (1993 Bonds). The net proceeds were placed in an irrevocable trust to provide future debt service payment on the refunded bonds. As a result, the 1993 bonds were considered defeased and the liabilities have been removed from the financial statements. As of June 30, 2010, there were no defeased bonds outstanding.

In connection with the issuance of the 2001 Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement under which the Agency is obligated to use tax increment to reimburse the City for lease payments made to the Authority for the project. The Series 2001F bonds (non-taxable) mature in 2022 and the Series 2001G bonds (taxable) matured in 2002. The 2001 Series G bonds were paid entirely in 2002 and the 2001 Series F bonds have an outstanding balance of \$145,895,000 as of June 30, 2010.

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

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

Project Area (\$13,000,000) and for reimbursement of costs incurred on the Story/King Retail Project (\$18,000,000).

As of June 30, 2010, the outstanding loans due to HUD aggregated to \$33,000,000. 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, 2010, and CDBG grants that were awarded or will be awarded to the City.

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 x4, 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 SERAF obligation was \$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.

On May 4, 2010, the Agency, the City and the San Jose Financing Authority entered into a loan agreement to provide the Agency through two separate payments (May 2010 and May 2011) with a combined amount of \$75,000,000 to make the SERAF payment. Sources of the loan were from the City's Low and Moderate Income Housing Fund (\$65,000,000) and idle moneys from City special funds (\$10,000,000). Of the \$65,000,000 from Low and Moderate Income Housing Fund, \$40,000,000 was generated through the issuance of Housing Set-Aside Tax Allocation Bonds (portion of 2010 Series D) and \$25,000,000 was generated through the City of San José Financing Authority's issuance of Commercial Paper Notes. The SERAF loan bears an interest rate at 0.95% for City special funds, 0.40% for Commercial Paper Notes, and 2.10% for the Housing Set-Aside Tax Allocation Bonds as of June 30, 2010. The combined outstanding principal plus accrued interest and the issuance costs from the first advance totaled \$62,735,000 as of June 30, 2010. The Agency will repay the City the principal, all unpaid interests and bond issuance costs in two installments on June 30, 2015 and June 30, 2016.

Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest, except 1996 Merged Area Revenue Bonds, Series A&B, 2003 Merged Area Revenue Bonds, Series A&B, 2010 Housing Set-Aside Bonds, Series C, and HUD Section 108 Loans, which bear interest at variable rates. Interest on the 1996 Merged Area Revenue Bonds Series A&B, 2003 Merged Area Revenue Bonds, Series A&B, and 2010 Housing Set-Aside Bonds, Series C may be set at different interest rate calculation modes, including daily, monthly and fixed rates. On June 30, 2010, all the variable rate bonds were set in weekly modes. Interest on the 2010 Housing Set-Aside Bonds Series C and HUD Section 108 loans is adjusted monthly, two days before the first day of each month to a variable interest rate equal to 172 basis points above the applicable LIBOR rate for the

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

2010 Housing Set-Aside Bonds Series C and 20 basis points for the HUD Section 108 Loan. The SERAF Loans bear interest at variable rates based on the 2010 Housing Set-Aside Bonds, Series C, City's Cash Pool monthly average investment yield and City's Commercial Paper Obligation.

For purposes of calculating the annual debt service requirements for variable rate debt as of June 30, 2010, the following assumed effective rates have been used:

<u>Bond issues</u>	<u>Effective interest rate</u>
1996 Merged Area Revenue, Series A	0.18%
1996 Merged Area Revenue, Series B	0.15%
2003 Merged Area Revenue, Series A	0.34%
2003 Merged Area Revenue, Series B	0.17%
2010 Housing Set-Aside, Series C	2.095%
HUD Section 108 loan	0.74%
SERAF Loan from City	0.95%
SERAF Loan - Commercial paper	0.40%
SERAF Loan - Low & Mod Housing	2.095%

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding as of June 30, 2010, 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
2011	\$ 46,730	\$ 85,051	\$ 11,405	\$ 13,904	\$ 17,810	\$ 10,227	\$ 75,945	\$ 109,182
2012	49,200	82,631	9,460	14,382	18,915	9,620	77,575	106,633
2013	51,590	80,095	9,845	14,049	19,685	10,964	81,120	105,108
2014	54,210	77,377	10,310	13,679	35,730	10,220	100,250	101,276
2015	56,975	74,516	10,795	13,269	85,231	8,306	153,001	96,091
2016-20	328,240	326,167	62,735	59,055	105,153	25,588	496,128	410,810
2021-25	396,385	234,789	77,395	44,004	96,275	6,958	570,055	285,751
2026-30	423,870	130,733	84,895	25,692	26,400	343	535,165	156,768
2031-35	301,060	44,274	63,280	8,744	11,101	21	375,441	53,039
2036-37	49,470	1,338	9,725	197	-	-	59,195	1,535
Total	\$ 1,757,730	\$ 1,136,971	\$ 349,845	\$ 206,975	\$ 416,300	\$ 82,247	\$ 2,523,875	\$ 1,426,193

Variable-Rate Demand Bonds

Included in long-term debt is \$100,000,000 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.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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

	Balance June 30, 2010	Credit Facility Description	
		Provider	Expiration Date
Redevelopment Agency:			
Revenue Bonds:			
Series 1996A (Merged Area)	\$ 25,000	JPMorgan Chase Bank, N.A.	11/25/2011
Series 1996B (Merged Area)	25,000	JPMorgan Chase Bank, N.A.	11/25/2011
Series 2003A (Taxable) (Merged Area)	35,000	JPMorgan Chase Bank, N.A.	11/25/2011
Series 2003B (Merged Area)	15,000	JPMorgan Chase Bank, N.A.	11/25/2011
Total variable rate revenue bonds	<u>\$ 100,000</u>		

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

The Agency's \$100,000,000 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, 2010, the letters of credit were set to expire on November 26, 2010 (see Note-III.E regarding the extension of the letters of credit). 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 2.1% to 2.3%, 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

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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.

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, 2010, the outstanding balance was \$38,000,000, payable upon maturity in September 2047. On July 9, 2010, the project was sold, and the bonds originally issued by the Agency were assumed by the new owner.

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, 2010, the outstanding balance was \$9,677,240.

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, 2010, \$17,075,334 represents the net assets invested in capital assets, net of related debt.
- *Restricted Net Assets* – This category presents external restrictions imposed by bond indentures, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation, or funds dedicated to low and moderate housing activities. At June 30, 2010, the Agency's statement of net assets reported restricted net assets of \$101,107,032, which is comprised

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

of \$91,107,032 for future debt service payment and \$10,000,000 proceeds from the issuance of Housing Set-Aside Bonds, 2010 Series C for low and moderate housing projects.

- *Unrestricted Net Deficit* – This category represents net deficit of the Agency, not restricted for any project or other purpose. As of June 30, 2010, the deficit amounted to \$2,085,393,455.

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, 2010, reservations of fund balance are described below:

- *Reserved for long-term receivables* – to reflect the amount due from developers and property owners in redevelopment project areas. Such amounts do not represent available spendable resources.
- *Reserved for advances and deposits* - to reflect the amount due from other funds, contractors, and amounts deposited with third parties that are long-term in nature. Such amounts do not represent available spendable resources.
- *Reserved for debt service* - to reflect the funds held by trustees or fiscal agents for future payment of bond principal, interest, reserve accounts, and un-withdrawn bond proceeds. These funds are legally restricted for repayment of debt and for redevelopment projects in accordance with the bond indentures.
- *Reserved for low and moderate housing activities* – to reflect the funds temporarily held by trustee or fiscal agent for future use for low and moderate income housing projects.
- *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

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 has been no worker's compensation liability and no instances where the amount of claim settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

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 obligations for hazardous materials remediation revealed 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 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 Statement No. 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 (Groundwater Treatment System) was installed that cleanses the water from volatile organic compounds prior to discharging to the Guadalupe River. The cost for the operation and maintenance, sampling and reporting for the Groundwater Treatment System is approximately \$70,000 per year based on the annual change in the consumer price index. Projected over four years, the cost would be \$280,000, which has been recognized as a liability as of June 30, 2010. Although the Agency sold the land to Adobe during the year, it is still liable to remedy the property from water accumulation and contamination. 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.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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.

	Fiscal Year	
	2010	2009
Unpaid claims, beginning of fiscal year	\$ 7,500	\$ 18,000
Incurred claims	-	-
Claims payment	(7,500)	(10,500)
Unpaid claims, end of fiscal year	\$ -	\$ 7,500

B. Commitments

Capital Expenditure Projections

On June 23, 2010, the Agency Board adopted the Operating and Capital Budgets for fiscal year 2010-2011. The fiscal year 2010-2011 budget shows a total spending of \$293 million. Of this amount, \$50 million is to be spent on capital expenditures, \$220 million for financing/non-project costs, \$18 million for operating expenditures and \$5 million for other obligated payments. At June 30, 2010, the Agency had \$18,092,711 in encumbrances, which represents contract commitments on capital projects.

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 2009-2010 for the Agency's direct employees was \$8,263,859. Both the Agency and the participating employees made contributions to the Plan amounting to \$710,129 and \$269,644, respectively.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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, 2010, is as follows (in thousands):

Year Ending June 30	Minimum payments
2011	\$ 3,082,536
2012	3,030,532
2013	2,688,574
2014	2,625,422
2015	2,264,609
2016-2020	3,334,587
2021-2022	187,980
Total	\$ 17,214,240

The total rent expense for operating leases in fiscal year 2009-2010 was approximately \$3,740,000.

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 (see Note II.H for the Housing Bonds breakdown). In fiscal year 2009-2010, the Agency received \$67,604,946 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 \$14,865,381 from the City for the following: (1) City's lease payment of \$14,665,381 pursuant to the Second Amended and Restated Reimbursement Agreement for the 2001 Convention Center Refunded Bonds, and (2) City's advance on the funding of Agency's capital projects in the total amount of \$200,000.

Payments to the City

The Agency paid \$3,943,694 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
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 2009-10, the Agency transferred to the City's Housing Department \$40,481,873 in tax increment set-aside. In addition, the Housing Debt Service Fund holds unspent debt proceeds totaling \$10,000,000 that are to be transferred to the City upon drawdown request to fund low and moderate housing activities.

Proceeds of drawdown aggregating to \$83,116,849 from 2010 Series C (\$82,712,886) and 2005 Series C & D (\$403,963) were transferred to the City's Housing Department to retire the Housing Line of Credit (\$50,000,000) and 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 \$15,019,966 from its Capital Projects Fund to the City. This transfer represents (1) \$14,665,381 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, and (2) \$354,585 payment to the City related to the City's offsetting lost property taxes from the San José Arena.

Cooperation Agreements with the City

The Agency enters into Annual 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. During the year, the City refunded a total amount of \$3,214,000 to the Agency representing surplus funds on PSM projects.

The amounts paid for construction projects in connection with these Cooperation Agreements during fiscal year 2009-2010 totaled \$9,016,360.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

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 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, 2010, the Agency paid a cumulative amount of \$22,343,000 to the City and owed the City \$8,111,800. On June 22, 2010, the Agency and the City entered a cooperation agreement whereby the Agency agreed to transfer the amounts owed to the City in Fiscal Year 2013-14. This was subsequently amended on September 28, 2010 to extend the repayment date to Fiscal Year 2015-2016.

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 José Financing Authority on the 4th/San Fernando Garage Parking Revenue Bond - Series 2002A, the Agency paid, during the year, the total amount of \$3,365,799 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 advanced money to the City to fund 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 José. The term of the loans is 30 years and repayments are made monthly on interest (3.481% - 4.520%) only. The principal balance of the loans 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, 2010, the total advances made by the Agency aggregated to \$500,000.

On April 20, 2010, the Agency and the City entered into a cooperation agreement, where as the City conveyed the real property located at 406 N. Autumn Street for the purchase price of \$630,000 to the Agency so the Agency can exchange the property for the other parcels with developers needed to form land assemblage necessary for the proposed City owned Autumn Street Extension Project. The Agency's obligation to pay the City the purchase price is due upon the Agency completing the exchange with the developer and upon City's notification to the Agency that City has issued a Certificate of Occupancy for private development on that property.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

During the year, the City transferred \$3,297,000 to the Agency. This represents the amount advanced by the Agency to the City in the prior fiscal year for a reimbursement of the Watson Park project.

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").

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.

In September 2009, the Agency informed the County that due to the SERAF requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-10 pass-through payment. The Agency further informed the County that it has reserved restricted funds for the fiscal year 2008-09 pass-through (\$21.3 million) pending negotiations regarding the payment. The 2001 Amended Agreement provides that the obligation to make these payments to the County is subordinate to "all of the Agency's loans, bonds or other indebtedness, and any pledge of or lien on Merged Area tax increment in order to secure such loans, bonds or other indebtedness, current and future, pursuant to the provisions of the Health and Safety Code."

The 2001 Agreement further provides that "a material change in state or federal laws or regulations affecting the Agency's redevelopment program which, for example, reduces bonding capabilities, changes the fiscal relationship of Agency to affected taxing entities, or in any way detrimentally impacts or substantially increases the Agency's financial program, the

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

Agreement shall be renegotiated. “Should there be any change in the law as specified, the parties shall meet in good faith to amend the Agreement to address the provisions which are affected by the change in the law, only.”

The 2001 Amended Agreement further provides that in the event that the subordinate nature of the County Obligation, or a material change in the law, “either reduce(s) or delay(s) the receipt of amounts of taxes to be received by the County under Tax Allocation Agreement, Agency shall recognize its obligation, in the case of a reduction, to pay such reduced tax amounts or delayed tax payments at a future time, together with interest thereon at the rate of ten (10%) percent per annum from the date such tax amounts would have been paid until actually paid.”

The 2001 Agreement states that if the County believes that the Agreement has been violated by the Agency, the parties “shall meet in order to resolve the issue in good faith. If the parties are unable to reach agreement, the dispute must be submitted to a mediator within 90 days of the date that impasse has been reached.” The parties have participated in mediation and have been meeting in good faith to attempt to resolve the issue of funds owed by the Agency to the County pursuant to the 2001 Agreement.

On August 20, 2010, the County submitted an invoice to the Agency in the amount of \$45.2 million, which included the FY 2008-09 pass-through amount of \$21.3 million, the FY 2009-10 amount of the \$19.2 million, and interest of \$4.7 million. In addition, the Agency also accrued \$2,072,292 for County administration fees. The Agency, City and County are negotiating a repayment strategy. The parties expect that the repayment will exceed twelve months.

SERAF Payment

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 \$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. Accordingly, the first payment was made on May 10, 2010 to the County and the next payment will be made on May 10, 2011.

The Agency is part of a certified class in the lawsuit brought by the California Redevelopment Association, along with the plaintiffs/petitioners, against the Director of the California department of Finance and all California County Auditors challenging AB26X4, passed in July 2009 as part of the State budget package. This statute required the Agency to pay \$75 million into the “Supplemental Education Revenue Augmentation Funds (SERAF)” over two fiscal years. The plaintiffs lost this case in the trial court, and it is now on appeal. If the redevelopment agencies lose the appeal, or if the case is not decided before May 10, 2011, the

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSÉ**

**Notes to the Basic Financial Statements (continued)
June 30, 2010**

Agency will be required to make another payment of approximately \$12.8 million to the SERAF.

E. Subsequent Events

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 November 26, 2010 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 and 1996 Bonds on November 26, 2010, the Bank has agreed to extend the 2003 Letters of Credit to November 25, 2011, 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 extension of the 2003 Letters of Credit with annual fee of 1.93% (a decrease from 2.3% on the 2003 Letters of Credit and a decrease from 2.1% on the 1996 Letters of Credit).
2. No new debt obligations, senior, parity, or subordinate may be incurred by the Agency during the term of the Letters of Credit.
3. A liquidity reserve in the amount of \$5 million will be set-aside as an added source of security for the Bank. This reserve would be funded in two installments, the first due at execution of the Letters of Credit Amendment and the second installment due on or before July 1, 2011.
4. The Agency will hire a real estate consultant to develop strategies designed to enhance the Agency's revenues and increase the value of its assets. The Agency will make its best effort to hire this consultant, at Agency's expense, by December 31, 2010.

Ambac Bankruptcy

On November 9, 2010, Ambac Financial Group Inc. (Ambac Financial) filed for bankruptcy protection under Chapter 11 Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac Financial is a holding company whose affiliates provide financial guarantees and financial services to its customers. Ambac Assurance Corporation, a subsidiary of Ambac Financial, has issued a financial guaranty insurance policy for payment of principal and interest when due and a reserve fund surety bond for the Agency's Series 1999 and 2005B tax allocation bonds and the Series 2006D tax allocation refunding bonds. According to the bond indenture for each of these bonds, in the event that such surety bond or insurance policy for any reason lapses or expires, the Agency must immediately (1) deliver a letter of credit, or (2) deliver to the trustee a surety bond or an insurance policy, or (3) make the required deposits to the bond reserve fund.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (continued)
June 30, 2010**

It is uncertain at this time whether the Ambac Financial bankruptcy will cause the financial guaranty insurance policies or the reserve fund surety bonds to lapse or expire. If such an event does occur, the Agency will be required to take one of the three actions documented above in order to maintain compliance with the bond indenture.



Fairmont Hotel and Plaza de Cesar Chavez Park



Dr. Martin Luther King, Jr. Library

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 Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Variance with Final Budget Positive/(Negative)			
Revenues:						
Investment income	\$ 36,474	\$ 36,474	\$ -	\$ 36,474	\$ -	\$ 36,474
Rent	894,771	894,771	-	894,771	-	894,771
Other	88,707	88,707	-	88,707	-	88,707
Total revenues	<u>1,019,952</u>	<u>1,019,952</u>	<u>-</u>	<u>1,019,952</u>	<u>-</u>	<u>1,019,952</u>
Expenditures:						
Current:						
General government:						
Personnel services	3,784,428	3,502,585	80,989	3,421,596	-	3,421,596
Non-personnel services	398,171	232,488	18,365	214,123	(76,207)	137,916
Intergovernmental:						
Payments to the City of San José	4,141,984	4,209,481	265,787	3,943,694	-	3,943,694
Total expenditures	<u>8,324,583</u>	<u>7,944,554</u>	<u>365,141</u>	<u>7,579,413</u>	<u>(76,207)</u>	<u>7,503,206</u>
Excess (deficiency) of revenues over (under) expenditures	(7,304,631)	(6,924,602)	365,141	(6,559,461)	76,207	(6,483,254)
Other financing sources:						
Transfers in	8,200,000	8,200,000	-	8,200,000	-	8,200,000
Net change in fund balance	895,369	1,275,398	365,141	1,640,539	76,207	1,716,746
Fund balance, beginning of year	<u>1,038,465</u>	<u>1,038,465</u>	<u>-</u>	<u>1,038,465</u>	<u>-</u>	<u>1,038,465</u>
Fund balance, end of year	<u>\$ 1,933,834</u>	<u>\$ 2,313,863</u>	<u>\$ 365,141</u>	<u>\$ 2,679,004</u>	<u>\$ 76,207</u>	<u>\$ 2,755,211</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 Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts Budgetary	Budgetary to GAAP	Actual Amounts
	Original	Final	Variance with Final Budget Positive/(Negative)	Basis	Differences	GAAP Basis
Revenues:						
Tax increment	\$ 41,241,860	\$ 40,655,002	\$ (173,129)	\$ 40,481,873	\$ -	\$ 40,481,873
Expenditures:						
Intergovernmental:						
Payments to the City of San José	41,241,860	40,655,002	(173,129)	40,481,873	-	40,481,873
Net change in fund balance	-	-	-	-	-	-
Fund balance, beginning of year	-	-	-	-	-	-
Fund balance, end of year	<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, 2010**

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 September - 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, 2010**

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.



Cisco Systems – North San Jose



Adobe Systems – Downtown

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 Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts Budgetary	Budgetary to GAAP	Actual Amounts
	Original	Final	Variance with Final Budget Positive/(Negative)	Basis	Differences	GAAP Basis
Revenues:						
Intergovernmental	\$ 67,604,946	\$ 67,604,946	\$ -	\$ 67,604,946	\$ -	\$ 67,604,946
Investment income	334	334	-	334	-	334
Total revenues	<u>67,605,280</u>	<u>67,605,280</u>	<u>-</u>	<u>67,605,280</u>	<u>-</u>	<u>67,605,280</u>
Expenditures:						
Intergovernmental:						
Payments to the City of San José	83,116,849	83,116,849	-	83,116,849	-	83,116,849
Debt service:						
Principal repayment	57,095,000	57,095,000	-	57,095,000	-	57,095,000
Interest and other charges	10,520,798	10,520,798	-	10,520,798	-	10,520,798
Bond issuance costs	1,068,056	1,068,056	-	1,068,056	-	1,068,056
Total expenditures	<u>151,800,703</u>	<u>151,800,703</u>	<u>-</u>	<u>151,800,703</u>	<u>-</u>	<u>151,800,703</u>
Deficiency of revenues under expenditures	<u>(84,195,423)</u>	<u>(84,195,423)</u>	<u>-</u>	<u>(84,195,423)</u>	<u>-</u>	<u>(84,195,423)</u>
Other financing sources (uses):						
Bonds issued	160,405,000	160,405,000	-	160,405,000	-	160,405,000
Premium on bond issued	21,474	21,474	-	21,474	-	21,474
Payment to refunded bond escrow agent	(56,735,000)	(56,735,000)	-	(56,735,000)	-	(56,735,000)
Total other financing sources (uses)	<u>103,691,474</u>	<u>103,691,474</u>	<u>-</u>	<u>103,691,474</u>	<u>-</u>	<u>103,691,474</u>
Net change in fund balance	19,496,051	19,496,051	-	19,496,051	-	19,496,051
Fund balance, beginning of year	<u>414,942</u>	<u>414,942</u>	<u>-</u>	<u>414,942</u>	<u>-</u>	<u>414,942</u>
Fund balance, end of year	<u>\$ 19,910,993</u>	<u>\$ 19,910,993</u>	<u>\$ -</u>	<u>\$ 19,910,993</u>	<u>\$ -</u>	<u>\$ 19,910,993</u>

See Accompanying Notes to 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 Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts Budgetary	Budgetary to GAAP	Actual Amounts
	Original	Final	Variance with Final Budget Positive/(Negative)	Basis	Differences	GAAP Basis
Revenues:						
Tax increment	\$ 130,736,015	\$ 130,736,015	\$ (5,205,508)	\$ 125,530,507	\$ -	\$ 125,530,507
Investment income	818,085	818,085	(97,369)	720,716	-	720,716
Total revenues	<u>131,554,100</u>	<u>131,554,100</u>	<u>(5,302,877)</u>	<u>126,251,223</u>	<u>-</u>	<u>126,251,223</u>
Expenditures:						
Debt service:						
Principal repayment	60,565,000	60,565,000	-	60,565,000	-	60,565,000
Interest and other charges	100,543,427	100,543,427	-	100,543,427	-	100,543,427
Total expenditures	<u>161,108,427</u>	<u>161,108,427</u>	<u>-</u>	<u>161,108,427</u>	<u>-</u>	<u>161,108,427</u>
Deficiency of revenues under expenditures	<u>(29,554,327)</u>	<u>(29,554,327)</u>	<u>(5,302,877)</u>	<u>(34,857,204)</u>	<u>-</u>	<u>(34,857,204)</u>
Other financing sources:						
Transfers in	5,832,049	5,832,049	-	5,832,049	-	5,832,049
Total other financing sources	<u>5,832,049</u>	<u>5,832,049</u>	<u>-</u>	<u>5,832,049</u>	<u>-</u>	<u>5,832,049</u>
Net change in fund balance	<u>(23,722,278)</u>	<u>(23,722,278)</u>	<u>(5,302,877)</u>	<u>(29,025,155)</u>	<u>-</u>	<u>(29,025,155)</u>
Fund balance, beginning of year	<u>152,983,932</u>	<u>152,983,932</u>	<u>-</u>	<u>152,983,932</u>	<u>-</u>	<u>152,983,932</u>
Fund balance, end of year	<u>\$ 129,261,654</u>	<u>\$ 129,261,654</u>	<u>\$ (5,302,877)</u>	<u>\$ 123,958,777</u>	<u>\$ -</u>	<u>\$ 123,958,777</u>

See Accompanying Notes to 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 Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Variance with Final Budget Positive/(Negative)			
Revenues:						
Tax increment	\$ 34,231,425	\$ 31,883,994	\$ 4,512,992	\$ 36,396,986	\$ -	\$ 36,396,986
Intergovernmental	18,162,381	18,162,381	-	18,162,381	-	18,162,381
Investment income	3,057,701	2,704,221	(1,562,935)	1,141,286	-	1,141,286
Rent	668,143	202,112	79,066	281,178	-	281,178
Grant revenue	4,000,000	4,000,000	(3,524,873)	475,127	-	475,127
Other	17,149,491	8,982,372	(1,678,410)	7,303,962	-	7,303,962
Total revenues	<u>77,269,141</u>	<u>65,935,080</u>	<u>(2,174,160)</u>	<u>63,760,920</u>	<u>-</u>	<u>63,760,920</u>
Expenditures:						
Current:						
General government:						
Personnel services	12,988,737	10,202,974	77,838	10,125,136	-	10,125,136
Non-personnel services	3,049,839	2,479,025	32,909	2,446,116	(523,000)	1,923,116
Intergovernmental:						
Payments to the City of San José	15,019,966	15,019,966	-	15,019,966	-	15,019,966
Payments to the County of Santa Clara	64,274,822	64,274,822	-	64,274,822	23,846,324	88,121,146
Payments to other governmental agencies	3,648,518	3,648,518	-	3,648,518	-	3,648,518
Debt service:						
Other loan issuance fees	212,886	212,886	-	212,886	-	212,886
Capital outlay:						
Project expenditures	235,745,041	96,104,520	26,748,000	69,356,520	(17,569,711)	51,786,809
Payments to the City of San José	9,016,360	9,016,360	-	9,016,360	-	9,016,360
Total expenditures	<u>343,956,169</u>	<u>200,959,071</u>	<u>26,858,747</u>	<u>174,100,324</u>	<u>5,753,613</u>	<u>179,853,937</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(266,687,028)</u>	<u>(135,023,991)</u>	<u>24,684,587</u>	<u>(110,339,404)</u>	<u>(5,753,613)</u>	<u>(116,093,017)</u>
Other financing sources (uses):						
Bonds issued	99,000,000	-	-	-	-	-
Proceeds from City's loan/advances	65,047,487	65,047,487	-	65,047,487	-	65,047,487
Proceeds from sale of capital assets	28,353,700	38,978,700	(5,331,734)	33,646,966	-	33,646,966
Transfers out	(14,032,049)	(14,032,049)	-	(14,032,049)	-	(14,032,049)
Total other financing sources	<u>178,369,138</u>	<u>89,994,138</u>	<u>(5,331,734)</u>	<u>84,662,404</u>	<u>-</u>	<u>84,662,404</u>
Net change in fund balance	<u>(88,317,890)</u>	<u>(45,029,853)</u>	<u>19,352,853</u>	<u>(25,677,000)</u>	<u>(5,753,613)</u>	<u>(31,430,613)</u>
Fund balance, beginning of year	<u>74,304,563</u>	<u>74,304,563</u>	<u>-</u>	<u>74,304,563</u>	<u>-</u>	<u>74,304,563</u>
Fund balance, end of year	<u>\$ (14,013,327)</u>	<u>\$ 29,274,710</u>	<u>\$ 19,352,853</u>	<u>\$ 48,627,563</u>	<u>\$ (5,753,613)</u>	<u>\$ 42,873,950</u>

See Accompanying Notes to Supplementary Information

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

**Notes to the Supplementary Information
June 30, 2010**

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 79-80.

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.

During the year, the County Pass Through payment totaling \$23,846,324 was recognized as an expenditure under GAAP but not in the budgetary basis as it is not budgeted during the year.

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

**Notes to the Supplementary Information
June 30, 2010**

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a GAAP basis are as follows:

	<u>Capital Projects Fund</u>
Expenditures per statement of revenues, expenditures, and changes in fund balances (GAAP basis)	\$179,853,937
GAAP basis expenditures to be budgeted in subsequent periods	(23,846,324)
Encumbrances	<u>18,092,711</u>
Expenditures - budgetary basis	<u><u>\$174,100,324</u></u>



Renderings of Proposed Downtown San Jose Ballpark

STATISTICAL SECTION

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
DESCRIPTION OF THE STATISTICAL SCHEDULES
JUNE 30, 2010

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
Financial Trends These schedules contain trend information to help the reader understand how the Agency’s financial performance and well-being have changed over time.	1 – 4	87 - 90
Revenue Capacity These schedules contain information to help the reader assess the Agency’s tax increment revenue source.	5 – 6	91 - 92
Debt Capacity These schedules present information to help the reader assess the affordability of the Agency’s current level of outstanding debt.	7 – 11	93 - 97
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the Agency’s financial activities take place.	12 – 14	98 - 100
Operating Information 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.	15 – 16	101 - 102

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 Nine Fiscal Years
 (accrual basis of accounting)
 (dollars expressed in thousands)

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 17,075
Restricted for:									
Debt Service	50,734	58,109	37,849	43,734	41,947	34,866	49,005	87,136	91,107
Low and moderate housing income housing activities	42,470	351	191	35,298	15,333	-	-	-	10,000
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>	<u>(2,085,393)</u>
Total governmental activities net assets (deficit)	<u>\$ (1,100,413)</u>	<u>\$ (1,303,195)</u>	<u>\$ (1,443,046)</u>	<u>\$ (1,540,359)</u>	<u>\$ (1,649,310)</u>	<u>\$ (1,735,197)</u>	<u>\$ (1,770,104)</u>	<u>\$ (1,862,146)</u>	<u>\$ (1,967,211)</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 or presented 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 Nine Fiscal Years
(dollars expressed in thousands)

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenses									
General government	\$ 25,064	\$ 26,903	\$ 22,269	\$ 8,498	\$ 6,910	\$ 5,755	\$ 7,002	\$ 7,677	\$ 7,503
Community development	232,048	334,344	181,384	134,001	147,052	167,508	112,532	135,237	162,421
Housing	65,521	82,227	61,679	60,545	50,881	32,364	50,843	90,469	123,599
Debt Service	86,245	92,895	94,084	91,512	96,989	92,964	108,287	110,587	110,762
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>	<u>404,285</u>
Program revenues									
Charges for services	-	-	-	-	-	-	-	-	1,176
Operating grants and contributions									
Community development	13,113	13,352	12,704	13,019	13,326	13,973	14,303	14,330	14,666
Housing	9,953	11,741	11,468	14,528	12,867	18,583	18,647	17,689	67,605
Capital grants and contribution									
Community development	48,358	97,690	18,114	5,749	4,457	4,429	4,306	6,384	3,972
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>	<u>87,419</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>	<u>(316,866)</u>
General revenues									
Tax increment	188,459	198,026	170,208	149,977	149,819	161,819	184,942	202,346	202,409
Unrestricted investment earnings	14,155	7,513	4,331	6,029	6,043	7,655	9,536	5,134	1,899
Developers contributions	215	-	-	4,435	-	-	5,491	-	-
Miscellaneous	6,626	5,265	2,740	3,505	6,369	6,245	6,532	6,046	7,492
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>	<u>211,800</u>
Changes in net assets	<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>	<u>\$ (105,066)</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 or presented 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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund										
Reserved for:										
Advances and deposits	\$ 39	\$ 43	\$ 44	\$ 42	\$ 39	\$ 39	\$ 289	\$ 289	\$ 539	\$ 513
Encumbrances	2,207	2,230	1,486	1,420	187	188	74	150	112	76
Unreserved, designated for redevelopment activities	1,962	520	3,719	5,243	7	903	1,404	6,681	387	2,166
Total general fund	4,208	2,793	5,249	6,705	233	1,130	1,767	7,120	1,038	2,755
All other governmental funds										
Reserved for:										
Long-term receivables	3,714	3,554	3,384	3,267	3,053	2,858	4,037	3,880	3,655	3,582
Advances and deposits	601	601	601	601	601	1,206	801	601	601	835
Debt service	49,981	87,631	94,185	76,546	78,869	79,668	73,500	90,087	130,179	133,870
Low and moderate income housing activities	679	42,470	351	191	35,298	15,333	16,115	2,834	415	10,000
Grants with purpose restrictions	20,171	21,116	22,021	-	-	-	-	-	-	-
Encumbrances	87,726	104,753	63,691	37,387	31,869	27,740	28,970	26,770	44,863	18,093
Unreserved, designated for redevelopment activities	7,261	137,196	8,747	138,864	82,746	6,543	3,619	90,780	47,991	20,364
Total all other governmental funds	170,133	397,321	192,980	256,856	232,436	133,348	127,042	214,952	227,704	186,744
Total fund balances of governmental funds	\$ 174,341	\$ 400,114	\$ 198,229	\$ 263,561	\$ 232,669	\$ 134,478	\$ 128,809	\$ 222,072	\$ 228,742	\$ 189,499

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Tax increment	\$ 142,151	\$ 188,459	\$ 198,026	\$ 170,208	\$ 149,977	\$ 149,819	\$ 161,819	\$ 184,942	\$ 202,346	\$ 202,409
Intergovernmental	30,581	42,311	94,482	38,407	32,276	26,620	34,762	35,697	38,333	85,767
Investment income	16,087	14,155	7,513	4,331	6,029	6,043	7,655	9,536	5,134	1,899
Rent	553	420	988	998	1,251	981	1,022	1,834	1,317	1,176
Developer contributions	13,703	29,630	27,949	2,148	-	-	-	9,133	998	-
Grant revenue	20,207	-	35	1,731	1,020	4,030	2,223	1,559	71	475
Other	11,469	6,206	6,848	1,896	11,298	3,785	3,969	4,514	3,695	7,393
Total revenue	234,751	281,181	335,841	219,719	201,851	191,278	211,450	247,215	251,894	299,119
Expenditures										
General government	16,867	18,622	19,864	16,538	14,761	14,059	12,499	14,021	15,137	15,608
Intergovernmental	109,415	105,824	129,445	118,732	111,532	96,584	66,248	89,630	135,545	234,332
Debt service:										
Principal repayment	22,450	24,445	28,125	33,860	31,265	41,610	43,810	43,815	55,125	117,660
Interest and other charges	77,580	75,332	93,710	91,529	94,603	93,985	91,759	105,728	108,504	111,064
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	1,281
Capital outlay	179,866	239,945	266,900	107,533	70,916	96,777	78,023	119,236	98,472	60,803
Total expenditures	407,248	480,365	538,044	389,012	329,076	355,499	324,638	376,124	414,236	540,748
Excess (Deficiency) of revenues over (under) expenditures	(172,497)	(199,184)	(202,203)	(169,293)	(127,225)	(164,221)	(113,188)	(128,909)	(162,342)	(241,629)
Other financing sources (uses)										
Bonds issued	44,205	614,383	-	545,985	218,355	269,400	782,485	212,930	117,295	160,405
Discount on bonds issued	-	(189)	-	-	-	-	-	-	(1,348)	-
Premium on bonds issued	-	-	-	16,725	395	17,191	29,157	1,129	-	21
Payment to refunded bond escrow agent	-	(189,651)	-	(332,571)	(126,899)	(232,010)	(712,615)	-	-	(56,735)
Proceeds from the sale of capital assets	2,802	-	317	4,486	4,482	11,449	8,491	-	8,365	33,647
Proceeds from other loan proceeds/advances	-	-	-	-	-	-	-	8,112	50,000	65,048
Reclassification of short-term variable rate demand bonds	-	-	-	-	-	-	-	-	(5,300)	-
Transfers in	36,335	42,440	45,238	65,091	21,759	39,009	36,608	42,629	31,046	14,032
Transfers out	(36,335)	(42,440)	(45,238)	(65,091)	(21,759)	(39,009)	(36,608)	(42,629)	(31,046)	(14,032)
Total other financing sources (uses)	47,007	424,543	317	234,625	96,333	66,030	107,518	222,171	169,012	202,386
Net change in fund balance	\$(125,490)	\$ 225,359	\$(201,886)	\$ 65,332	\$(30,892)	\$(98,191)	\$(5,670)	\$ 93,262	\$ 6,670	\$(39,243)
Debt service as a percentage of non capital expenditures *	29.8%	26.6%	27.6%	38.6%	41.7%	40.1%	43.4%	45.2%	41.6%	44.6%

* - Exclude Bond Issuance Cost

Source: Redevelopment Agency of the City of San Jose

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

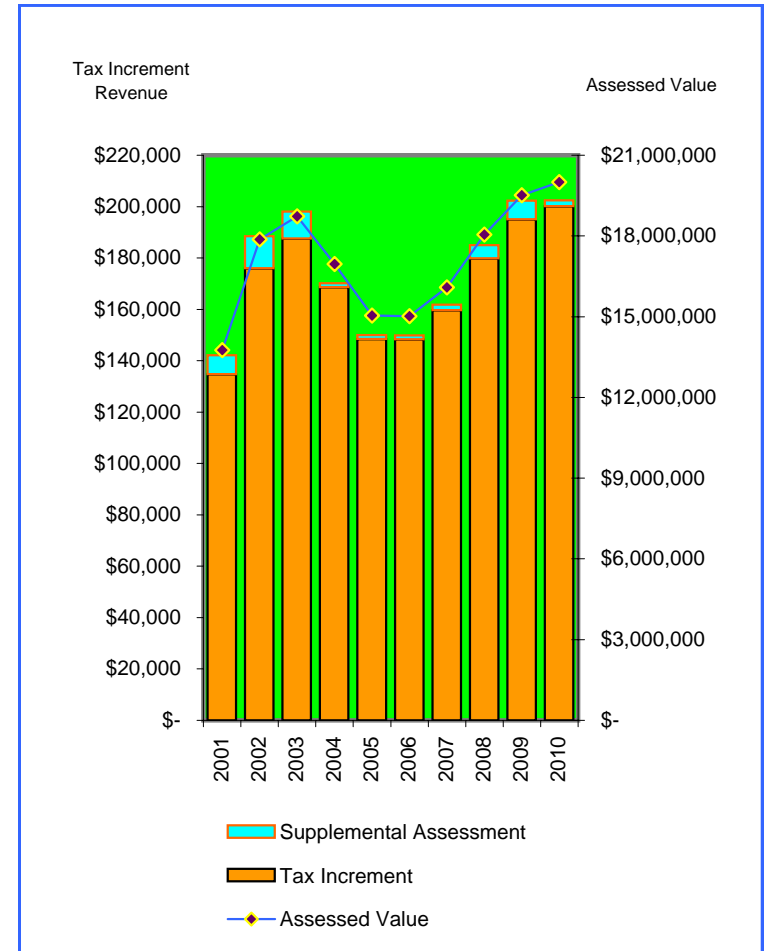
Table 5

Actual Assessed Value and Tax Increment Revenue
Merged Area Redevelopment Project
Last Ten Fiscal Years
(dollar amounts expressed in thousands)

Fiscal Year	Actual Assessed Value (1)	% Change	Tax Increment	Supplemental Assessment	Gross Tax Revenues	% Change
2001	\$ 13,761,356	11.1%	\$ 134,649	\$ 7,502	\$ 142,151	9.62%
2002	17,866,814	29.8%	175,926	12,533	188,459	32.58%
2003	18,732,944	4.8%	187,448	10,578	198,026	5.08%
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	8.01%
2008	18,053,654	12.2%	179,763	5,179	184,942	14.29%
2009	19,510,189	8.1%	194,929	7,417	202,346	9.41%
2010	20,003,431	2.5%	200,113	2,296	202,409	0.03%

(1) Total assessed value for Merged Project Area. Tax increment revenue calculated on incremental assessed value, after subtracting base year assessed value from total assessed value. For fiscal year 2009-2010, total assessed value includes \$15,888,333,634 in value on the secured roll and \$4,115,097,549 in value on the unsecured roll. The current base year value is \$1,095,977,484.

Assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index.



Source: Santa Clara County Assessor, Urban Analytics, LLC, and Redevelopment Agency

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	Rank	2010				2001				
			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	\$ 1,059,585	\$ 1,894,948	\$ 2,954,533	14.77%	1	\$ 820,713	\$ 854,604	\$ 1,675,317	12.17%
Blackhawk Parent LLC	Real Estate Development	2	843,514		843,514	4.22%					
The Irvine Company	Real Estate Development	3	644,135		644,135	3.22%					
Hitachi Global Storage Techs, Inc.	Computer Disc Storage	4	617,312		617,312	3.09%					
CarrAmerica Realty Corp.	Real Estate Development	5	411,738	6	411,744	2.06%	4	300,087	158	300,245	2.18%
Adobe Systems	Technology	6	301,087	865	301,952	1.51%	6	135,858	40,407	176,265	1.28%
eBay Inc	Internet Software and Services	7	237,917	529	238,446	1.19%					
Mission West Properties	Real Estate Development	8	214,429		214,429	1.07%					
Cadence Design Systems	Computer Design Systems	9	207,621		207,621	1.04%					
Park Center Plaza	Real Estate Development	10	172,890		172,890	0.86%					
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%
Novellus Systems Inc	Semiconductor Equipment						7	141,266	28,350	169,616	1.23%
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>\$ 4,710,228</u>	<u>\$ 1,896,348</u>	<u>\$ 6,606,576</u>	<u>33.03%</u>				<u>\$ 4,601,568</u>	<u>33.44%</u>
Total assessed value in the tax generating area of the Merged Area			<u>\$ 15,888,334</u>	<u>\$ 4,115,097</u>	<u>\$ 20,003,431</u>	<u>100.00%</u>				<u>\$ 13,761,356</u>	<u>100.00%</u>

Source: Redevelopment Agency of the City of 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, 2010

(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)
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%	2,392.15
2009	1,802,235	253,270	422,612	2,478,117	4.20%	2,461.15
2010	1,757,730	349,845	416,300	2,523,875	4.45%	2,467.09

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

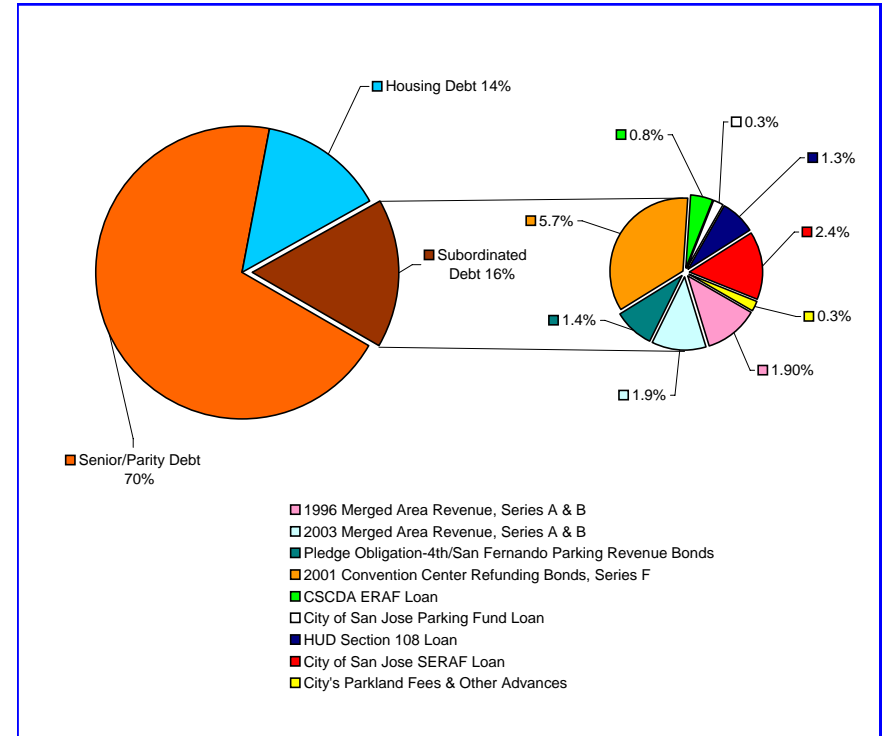
(a) - See statistical table 12 for personal income and population data. These ratios are calculated using personal income and population of prior calendar year.

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, 2010

Table 8

	Due Serially To	Amounts (in thousands)
Senior/Parity Debt (debt payment equally secured)		
1993 Merged Area Refunding Tax Allocation Bonds	2015	\$ 46,650
1997 Merged Area Tax Allocation Bonds	2028	6,400
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	222,525
2005 Merged Area Tax Allocation Bonds, Series A & B	2028	214,995
2006 Merged Area Tax Allocation Bonds, Series A & B	2022	80,300
2006 Merged Area Tax Allocation Bonds, Series C & D	2032	700,175
2007 Merged Area Tax Allocation Bonds, Series A & B	2036	209,390
2008 Merged Area Tax Allocation Bonds, Series A & B	2036	114,265
Sub -Total		1,757,730
Housing Bonds		
1997 Housing Set-Aside Bonds, Series E	2027	17,045
2003 Housing Set-Aside Bonds, Series J & K	2029	48,490
2005 Housing Set-Aside Bonds, Series A & B	2035	123,905
2010 Housing Set-Aside Bonds, Series A & B-T	2036	67,405
2010 Housing Set-Aside Bonds, Series C	2036	93,000
Sub -Total		349,845
Subordinated Debt (in payment priority) - Other		
1996 Merged Area Revenue, Series A & B	2026	50,000
2003 Merged Area Revenue, Series A & B	2032	50,000
Pledge Obligation-4th /San Fernando Parking Revenue Bonds	2026	36,710
2001 Convention Center Refunding Bonds, Series F	2022	145,895
CSCDA ERAF Loans	2016	20,735
HUD Section 108 Loans	2026	33,000
City of San Jose SERAF Loan	2015	62,735
City of San Jose Parking Fund Loan	2015	8,483
City of San Jose Deferred Parkland Fees and Other Advances	2014/2012	8,742
Sub -Total		416,300
Grand Total		\$ 2,523,875



Source: Redevelopment Agency of the City of San Jose

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Table 9

Debt Service Coverage for Senior (Parity) Debt

Governmental Activities

As of June 30, 2010

(dollars expressed in thousands)

Tax Allocation Revenue	\$ 202,409
Less: Housing Set-Aside (20%)	(40,482)
Net Statutory Pass-Through Payments	<u>(3,649)</u>
Tax Allocation Revenue Available for Debt Service	<u>158,278</u>
Maximum Annual Debt Service on Senior Lien Parity Bonds	<u>\$ 133,045</u>
Debt Service Coverage - June 30, 2010	<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, 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.

Maximum Annual Debt Service represents the greatest amount of principal and interest due and payable on all senior bonds or parity debt in any fiscal year the debts are outstanding.

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

Fiscal Year	Tax Increment Revenues ⁽¹⁾	Annual Debt Service ⁽¹⁾	Debt Service Coverage ⁽¹⁾	Per Capita Personal Income ⁽²⁾
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
2010	202,409	178,724	1.13	55

Note: The annual debt service for 2010 represents payments of principal, interest and other charges associated to all Agency's debt, but excludes the \$50 million Housing Letter of Credit that was repaid from the City's low-mod housing funds.

Source:

⁽¹⁾ *Redevelopment Agency of the City of San Jose*

⁽²⁾ *U.S. Department of Commerce, Bureau of Economic Analysis*

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
 Project Area and Debt Termination
 June 30, 2010

Table 11

	Tax Increment Generating Project Areas	Acreage (a)	Plan Adoption	Plan Termination (b)	Last Day to Repay Debt (b)
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 Neighborhoods 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.

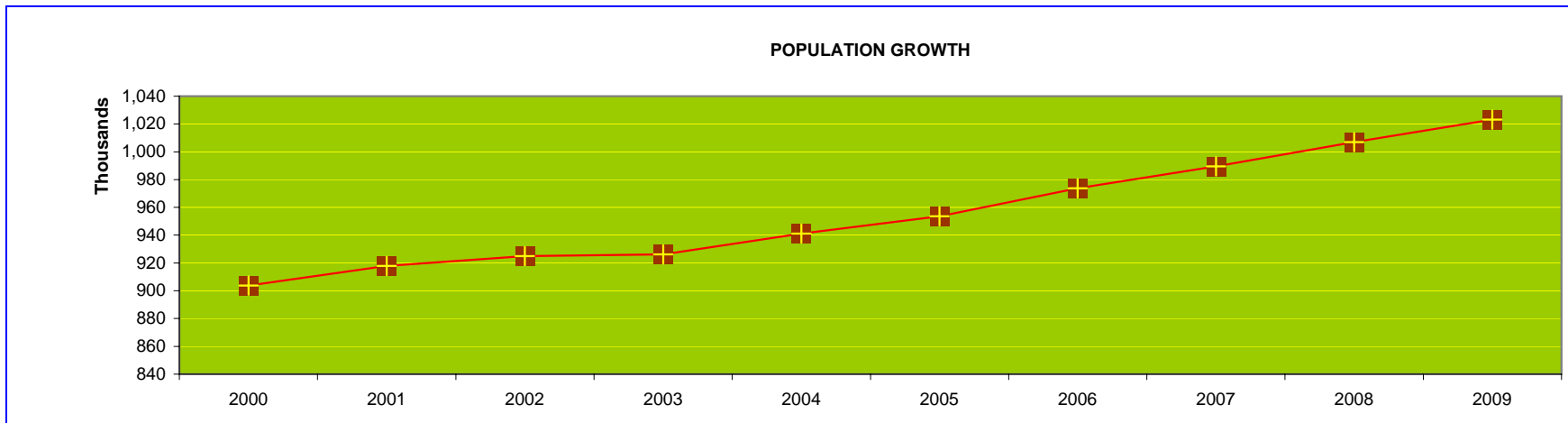
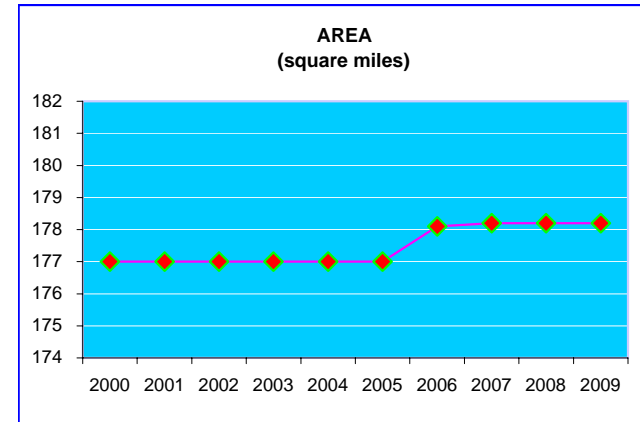
(c) Acreage for the Rincon South has been combined with Rincon North.

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 ⁽¹⁾	Area in Square Miles ⁽²⁾	Personal Income (In Thousand)	Per Capita Personal Income ⁽³⁾	Unemployment Rate ⁽⁴⁾
2000	894,943	177.00	\$ 47,793,536	\$ 53,404	3.5%
2001	917,971	177.00	44,838,293	48,845	4.9%
2002	925,000	177.30	42,171,675	45,591	8.5%
2003	926,200	177.70	42,620,019	46,016	9.1%
2004	941,116	177.70	45,276,150	48,109	6.7%
2005	953,679	177.80	48,901,798	51,277	5.5%
2006	973,672	178.10	53,571,433	55,754	4.7%
2007	989,496	178.20	58,741,430	59,365	4.8%
2008	1,006,892	178.20	58,934,396	58,531	6.0%
2009	1,023,083	178.20	56,682,891	55,404	11.7%



Source:

- (1) City of San Jose Comprehensive Annual Financial Report for 2000-2001 and California Department of Finance population estimates for 2002 to 2009
- (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
- (4) California Employment Development Department, 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	2010			2001		
	Rank	Number of Employees	*Percent of Total Employment	Rank	Number of Employees	*Percent of Total Employment
County of Santa Clara	1	15,360	1.92%	2	14,000	1.44%
Cisco Systems	2	11,600	1.45%	1	15,640	1.61%
IBM	3	7,460	0.93%	3	9,000	0.93%
City of San Jose	4	6,623	0.83%	4	7,457	0.77%
San Jose State University	5	3,100	0.39%	7	3,000	0.36%
Ebay/Paypal	6	3,000	0.37%			
Hitachi	7	2,900	0.36%			
San Jose Unified School District	8	2,690	0.34%	6	3,454	0.36%
Xilinx	9	2,340	0.29%			
Sanmina-SCI	10	2,170	0.27%			
Cadence Design Systems, Inc.				5	5,000	0.51%
KLA Tencor				8	2,500	0.26%
East Side Union High School District				9	2,200	0.23%
Pacific Bell				10	2,082	0.21%

* Based on total employment of 801,500 for 2010 and 972,000 for 2001 in the San Jose/Sunnyvale/Santa Clara Metropolitan Statistical Area.

*Source: City of San Jose, Office of Economic Development
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, 2010

Date Established:	1956
Governing Body:	City Council (as Board of Directors)
Authorized Positions (Full Time Employees):	92
Population of City of San Jose (January 1, 2010)	1,023,083
Area:	
City of San Jose	179.2 sq. mi.*
Redevelopment Area (see geographical map)	18,476 acres dispersed throughout the City

	<u>Project Areas</u>		
	<u>Area</u>	<u>Approximate Acreage **</u>	<u>Tax Increment Generating Area</u>
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	<u>21</u>	<u>18,476</u>	<u>12</u>

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 Nine Fiscal Years

Table 15

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agency's Authorized Number of Employees	136	136	124	113	113	116	116	119	92
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	11
Streetscapes Projects	6	6	2	17	10	8	3	6	0
2.) Build Public Facilities:									
Initiate and Facilitate Public Facilities and Spaces									
Number of Completed Public Projects	7	18	11	9	12	8	17	29	12
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	213
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	2,585

(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 Nine Fiscal Years

Table 16

	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>	<u>2010</u>
Capital Assets									
Function/Program									
General government									
Parking structure	1	1	1	1	1	1	2	2	1
Community Development									
Parcels of land	-	-	-	-	2	2	3	3	3
Retail Site Improvement (number of sites)	-	-	-	-	1	1	1	1	1
Completed Public Improvement/facilities	-	-	-	-	2	5	5	5	5
Equipment (by project and purpose)	-	-	-	-	-	1	2	2	2
Accumulated Redevelopment Project Costs									
Merged Project Area									
Parcels of land for future development	174	132	145	144	131	123	122	123	127
Ongoing Public Improvement/facilities	12	25	22	26	31	24	20	16	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 or presented for the purpose of providing the 10-year comparative information for the above schedule.

Source: Redevelopment Agency of the City of San Jose



Guadalupe River Park & Gardens – North San Jose



San Jose Civic Auditorium

COMPLIANCE SECTION

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

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

We have audited the 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, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated October 29, 2010, except as to Note III.E, Ambac Bankruptcy, as to which the date is November 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management of the Agency and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Cunnell LLP
Certified Public Accountants

Walnut Creek, California
October 29, 2010