REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Report to the Board of Directors

Fiscal Year Ended
June 30, 2010

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

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), as of and for the year ended June 30, 2010. Professional auditing standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our Audit Plan to you dated July 15, 2010. Professional standards also require that we communicate to you other information related to our audit as discussed on pages 1 through 3.

In planning and performing our audit of the Agency's basic financial statements in accordance with auditing standards generally accepted in the United States of America, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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 was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication includes the prior year's recommendation and the status of the Agency's corrective action in response to the recommendation.

This communication is intended solely for the information and use of the Committee, City Council, and Agency management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California

October 29, 2010

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Fiscal Year Ended June 30, 2010

REQUIRED COMMUNICATIONS

I. Other Information in Documents Containing Audited Financial Statements

During the year, the Agency included audited financial statements in various debt offering documents (e.g., Official Statements). We do not have an obligation to perform any procedures to corroborate other information contained in such debt offering documents. We were not associated with and did not have any involvement with such documents. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the debt offering documents.

Our responsibility for other information in documents containing the Agency's financial statements and our report thereon does not extend beyond financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the Agency's comprehensive annual financial report, and no matters came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or its manner of presentation, appearing in the financial statements.

II. Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our contract with the Agency, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in Note 1 to the Agency's basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Fair value of investments
- Estimated valuation of the allowance for loans receivable
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property
- Accrual and disclosure of compensated absences
- Accrual and disclosure of pollution remediation obligations

REQUIRED COMMUNICATIONS (Continued)

Management's judgments and estimates were based on the following:

- Fair values of investments were based on quoted market prices.
- Estimated valuation of the allowance for loans receivable comprised of an allowance for risk and an allowance for present value discount. The allowance for risk was based on the consideration of the changes in the portfolio character, evaluation of current economic conditions and management's estimate regarding the likelihood of collectability based on loan provisions and collateral. The allowance for present value discount was based on management's estimate of the present value of projected net cash flows to the Agency from the loan portfolio.
- Useful lives for depreciable property were determined by management based on the nature of the capital asset and were depreciated using the straight-line method.
- Accrual and disclosures of compensated absences were based on accrued eligible hours of vacation and sick leave at current pay rates for eligible employees.
- Accrual and disclosures of pollution remediation obligations were determined by the Agency's attorneys, the Agency's project managers and its environmental consultants' judgments about the ultimate outcome of the obligations.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial reporting units that collectively comprise the Agency's basic financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

REQUIRED COMMUNICATIONS (Continued)

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2010, except as to Note III.E, Ambac Bankruptcy, as to which the date is November 9, 2010.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

STATUS OF PRIOR YEAR'S RECOMMENDATION

2009-A Comment:	Accounting for Variable Rate Demand Obligations
Condition:	At June 30, 2009, the Agency had $56.6 million of variable rate Tax Allocation Bonds, Series 2003A/B outstanding. These variable rate demand obligations were supported by a credit facility provided by JPMorgan Chase, N.A. (JP Morgan) with an expiration date of August 27, 2009 that was subsequently extended to November 26, 2009. However, the extension did not meet the requirements under GAAP for continuing to report the bonds as noncurrent obligations.
Recommendation:	Given the Agency's reliance on third party credit facilities, we recommend evaluating the financial and operational implications should conditions related to the availability of such credit facilities worsen in the future. Additionally, we suggest expanding the traditional finance focused monitoring efforts related to bond obligations to include coordination with the City's Finance Department to ensure changes impacting classifications or display are properly considered and reflected in the financial statements.
Status:	The Agency has been proactive in communicating the status of its efforts to extend the credit facilities associated with its variable rate debt. The financial statements were not issued until confirmation of the extension of such credit facilities was received.