

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE  
CITY OF SAN JOSÉ**  
(A Component Unit of the  
City of San José, California)

Independent Auditor's Reports  
and Basic Financial Statements

For the Year Ended June 30, 2019



Certified  
Public  
Accountants

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
For the Year Ended June 30, 2019

*Table of Contents*

	<i>Page</i>
<b>Independent Auditor’s Report</b> .....	1
<b>Basic Financial Statements:</b>	
Statement of Fiduciary Net Position.....	3
Statement of Changes in Fiduciary Net Position.....	4
Notes to Basic Financial Statements .....	5
<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b> .....	35



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Agency of the Redevelopment Agency of the City of San José (SARA), a component unit of the City of San José (City), California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the SARA's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SARA as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019 on our consideration of the SARA'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 solely 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 effectiveness of the SARA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SARA's internal control over financial reporting and compliance.



Walnut Creek, California  
November 14, 2019

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Statement of Fiduciary Net Position  
June 30, 2019

**Assets:**

Cash and investments	\$ 56,436,937
Receivables, net of allowance of \$133,664	296,319
Restricted cash and investments	117,797,328
Advances to the City of San José	739,000
Loans receivable, net of allowance of \$13,822,395	4,120,546
Accrued interest receivable	1,076,211
Deposits	5,000
Prepaid bond insurance	1,808,982
Capital assets:	
Nondepreciable	2,892,350
Depreciable, net	<u>50,598,105</u>
 Total assets	 <u>235,770,778</u>

**Deferred outflows of resources:**

Loss on deferred amount on refunding	<u>38,088,984</u>
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**Liabilities:**

Accounts payable	149,954
Accrued interest payable	22,036,106
Unearned revenues	7,662
Noncurrent liabilities:	
Due within one year	141,514,061
Due in more than one year	<u>1,517,435,575</u>
 Total liabilities	 <u>1,681,143,358</u>

<b>Net deficit held in trust</b>	<u><u>\$ (1,407,283,596)</u></u>
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See accompanying notes to basic financial statements.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2019

**Additions:**

Redevelopment property tax trust fund revenues	\$ 226,743,565
Investment income	1,185,825
Rent	100,875
Gain on sale of revenue participation	31,063
Capital contribution from the City of San José	1,600,000
Charges for current services	55,402
Development fees	251,030
Gain on sale of property, net	10,725,406
Grant revenue	993,197
Other	<u>1,586,194</u>
Total additions	<u>243,272,557</u>

**Deductions:**

Administrative expenses:	
Reimbursement of personnel expenses	895,286
Materials, supplies and other services	654,994
Project expenses	680,121
Pass-through amount to the County of Santa Clara	36,409,663
Payments to the County of Santa Clara for distributions to taxing entities	51,541,314
Transfer of properties to the City of San José	28,661,608
Depreciation	1,978,842
Interest on debt	54,904,328
Allowance for loan losses	<u>133,487</u>
Total deductions	<u>175,859,643</u>
Change in net position	67,412,914

Net deficit, beginning of year	<u>(1,474,696,510)</u>
<b>Net deficit, end of year</b>	<u><u>\$ (1,407,283,596)</u></u>

See accompanying notes to basic financial statements.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 1 – REPORTING ENTITY**

The former Redevelopment Agency of the City of José (“Agency”) was established in 1956 by the San José City Council as a public entity legally separate from the City of San José (“City”). In January 1975, the City Council declared itself the Agency Board, replacing a separate board. Until June 28, 2011, the Agency had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Area”. Redevelopment projects were developed in cooperation with private developers. Public redevelopment projects were also developed under cooperation agreements between the Agency and the City or other public entity that would own the project.

On June 29, 2011, Assembly Bill X1 26 (“AB X1 26”) was enacted. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. AB X1 26 was subsequently amended on June 27, 2012 by Assembly Bill 1484 and on September 22, 2015 by Senate Bill 107, AB X1 26, as so amended, is referred to herein as the Redevelopment Dissolution Law. The legislation provides for successor agencies and oversight boards to be responsible for overseeing the dissolution process and the wind down of redevelopment activity. On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency of the City of San José (“SARA” or “Successor Agency”), effective February 1, 2012. The SARA is a fiduciary component unit of the City. Also upon dissolution, the City Council elected to retain the housing assets as well as the functions and powers previously performed by the Agency.

The SARA is a separate public entity from the City, subject to the direction and oversight of a Board consisting of the Mayor and the other members of the City Council (“SARA Board”). The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an oversight board.

Beginning July 1, 2018, pursuant to Health and Safety Code section 34179(j), the individual oversight boards within Santa Clara County were combined into one county-wide oversight board (“Oversight Board”). The Oversight Board is comprised of seven member representatives with one member appointed by each of the following: County Board of Supervisors, the city selection committee established pursuant to Section 50270 of the Government Code, the independent special district selection committee established pursuant to Section 56332 of the Government Code, the County Superintendent of Education, the Chancellor of the California Community Colleges, a public appointment made by the County Board of Supervisors, and the recognized employee organization representing the largest number of successor agency employees in the County. The Oversight Board is staffed by the County of Santa Clara Auditor-Controller and tasks have been delegated among the County Finance Agency, the Office of the County Executive, the Clerk of the Board of Supervisors, and Office of the County Counsel.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 1 – REPORTING ENTITY – Continued**

In general, the SARA’s assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In general, the SARA is allocating revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the Agency until all enforceable obligations of the Agency have been paid in full and all assets have been liquidated. Based upon the nature of the SARA’s custodial role, the SARA is reported in a fiduciary fund (private-purpose trust fund).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

***Basis of Accounting***

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

***New Pronouncements***

During the year ended June 30, 2019, the SARA implemented the following Governmental Accounting Standards Board (“GASB”) Statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (“AROs”). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgements, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require a government to take actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The application of Statement No. 83 did not have any effect on the SARA’s financial statements.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*New Pronouncements, continued*

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash or other assets that may be used in lieu of cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; asset pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

This statement defines direct borrowings and direct placements as having terms negotiated directly with the investor or lender and are not offered for public sale. See Note 7 for application of this Statement on the SARA's financial statements.

The SARA is currently analyzing its accounting practices to determine the potential impact on the financial statements for the upcoming GASB Statements:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Application of Statement No. 84 is effective for the SARA's fiscal year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of Statement No. 87 is effective for the SARA's fiscal year ending June 30, 2021.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*New Pronouncements, continued*

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in financial statements prepared using the economic resources measurement focus. Application of Statement No. 89 is effective for the SARA's fiscal year ending June 30, 2021.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Application of Statement No. 90 is effective for the SARA's fiscal year ending June 30, 2020.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of Statement No. 91 is effective for the SARA's fiscal year ending June 30, 2022.

*Investments*

The SARA records investment transactions on the trade date. Investments are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income, including unrealized gains and losses, is recognized as revenue.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Investments, continued*

In accordance with GASB Statement No. 72, the SARA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments whose values are based on inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 - Investments whose values are based on unobservable inputs for an asset and may require a degree of professional judgment.

*Redevelopment Property Tax Trust Fund Revenues*

The Redevelopment Dissolution Law requires the County Auditor-Controller to collect funds formerly received by the Agency as tax increment and currently referred to herein as redevelopment property tax revenues. After deducting its administration costs, the County Auditor-Controller must distribute the collected redevelopment property tax revenues into the SARA’s Redevelopment Property Tax Trust Fund (“RPTTF”) to the extent necessary to pay the SARA’s enforceable obligations, subject to the review and approval of the State Department of Finance. The Redevelopment Dissolution Law requires the County Auditor-Controller to distribute funds from the RPTTF twice each year as follows:

Distribution Date	Covers Recognized Obligation Payment Schedules to be Paid*
January 2	January 1 through June 30
June 1	July 1 through December 31

\* The amounts distributed for Recognized Obligation Payment Schedules (“ROPS”) are forward looking to the next six month period.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

*Redevelopment Property Tax Trust Fund Revenues, continued*

The County Auditor-Controller administers the RPTTF for the benefit of local taxing agencies and the holders of the SARA's enforceable obligations. The Redevelopment Dissolution Law requires the County Auditor-Controller to disburse funds from the RPTTF in the following order: (1) for payments local agencies and schools would have received from the collected revenue before dissolution and for any pass-through payments pursuant to agreement unless such payments are subordinate to the payment of items described in (2) below and certain conditions are satisfied (including the timely filing of a Notice of Insufficiency by the SARA); (2) for payment of the former Agency's enforceable obligations with debt service payments (and amounts required to replenish the related reserve funds, if any) scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the ROPS; (3) for payment of the SARA's administrative cost allowance (equal to the greater of \$250,000 or three percent of the revenue allocated to the SARA), and (4) any funds remaining in the RPTTF after payments of items (1) through (3) above, to local taxing agencies.

In the event there are insufficient funds available in the RPTTF to pay all enforceable obligations, the Redevelopment Dissolution Law requires the County Auditor-Controller to reduce or eliminate the above-listed distributions in the following order: first, to reduce or eliminate distributions to local taxing agencies; second, to reduce or eliminate payment of the SARA's administrative expenses; and third, to deduct the amount required to meet the former redevelopment agency's bond debt service from pass-through payments, if the receiving agency has made an agreement to subordinate its pass-through payments.

On December 21, 2017, the SARA issued the 2017 Senior Tax Allocation Refunding Bonds and the 2017 Subordinate Tax Allocation Refunding Bonds ("2017 Refunding Bonds") to refund certain bonds and other enforceable obligations of the former Agency. The payment of debt service on the 2017 Refunding Bonds and the other obligations under the related indenture are payable from certain tax revenues on a basis senior to the payment (i) of all AB1290 statutory pass-through payments except AB1290 payments to the San José Unified School District and (ii) the negotiated pass-through payments to Santa Clara County. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made with funds on deposit in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment debt service on the 2017 Refunding Bonds) unless there are insufficient funds to pay such debt service and certain other conditions are satisfied. Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

***Redevelopment Property Tax Trust Fund Revenues, continued***

In the event there are insufficient tax revenues from the RPTTF to pay debt service on the 2017 Refunding Bonds, a Notice of Insufficiency is filed timely by the SARA, certain other conditions under the Redevelopment Dissolution Law are satisfied, and tax revenues from the RPTTF would be distributed as follows: (1) administrative fees of the County Auditor-Controller; (2) San José Unified AB1290 pass-through; (3) debt service on the 2017 Refunding Bonds; (4) all other AB1290 and negotiated pass-through payments due to Santa Clara County; (4) all other enforceable obligations; and (5) the SARA's administrative cost allowance. All funds remaining in the RPTTF after payment of items (1) through (5) above, would be paid to the applicable taxing entities. See Note 7 for additional information regarding the 2017 Refunding Bonds.

***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.

***Property Held for Resale***

Property held for resale is recorded as an asset at the lower of cost or net realizable value. The SARA recorded certain capital assets originally received from the Agency as property held for resale. On September 8, 2014, the State Department of Finance ("DOF") approved the Long-Range Property Management Plan ("LRPMP"), which specifies the disposition of the SARA properties. The SARA properties designated for sale under the LRPMP are to be sold in accordance with the Asset Disposition Schedule and the Disposition Process for Sale of Properties, both of which are subject to the approval of the Oversight Board. All properties were disposed of during the year (see Note 5).

***Capital Assets***

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

***Original Issue Discounts, Premiums, and Refundings***

Original issue discounts and premiums are amortized using the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable bond discounts and/or premiums. Gains or losses occurring from refunding of debt are reported as deferred inflows of resources or deferred outflows of resources, respectively; and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is recorded as a component of interest expense.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Use of Estimates*

The preparation of basic financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NOTE 3 – CASH AND INVESTMENTS**

The SARA’s cash and investments consist of the following at June 30, 2019:

<b>Cash &amp; Investments</b>	<b>Amount</b>
Cash and Investments	\$ 56,436,937
Restricted Cash and Investments	117,797,328
Total Cash and Investments	<u>\$ 174,234,265</u>

*Investments*

The SARA follows provisions of the California Government Code and the City’s Municipal Code as set forth in the City’s investment policy. The City Council adopted an investment policy ("Policy") on April 2, 1985, related to the City’s cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Per the Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy. The Policy was last reviewed and amended on March 19, 2019.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 3 – CASH AND INVESTMENTS – Continued**

*Investments, continued*

The following table identifies the investment types that are authorized by the Policy as of June 30, 2019:

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage or Dollar of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Supranationals	5 years	20% *	None
Bankers' Acceptances	180 days	20% *	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	1 year *	20% *	5% *
Repurchase Agreements	92 days *	50% *	10% *
Reverse Repurchase Agreements	30 days *	Lesser of \$25 million or 20% *	None
Corporate Medium Term Notes	3 years *	30%	5% *
California Local Agency Investment Fund	N/A	State Treasurer Limit	None
Money Market Mutual Funds	N/A	20%	10%
Municipal Bonds - Category 1 (City)	5 years	10% *	5% *
Municipal Bonds - Category 2 (State of CA)	5 years	5% *	5% *
Municipal Bonds - Category 3 (CA Issuers)	5 years	20% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	20% *	5% *
Investment Agreements	None	None	None
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)	5 years	10%*	None
Asset Backed Securities (ABS)	5 years	5% *	None

\* Represents where the City's Policy is more restrictive than the California Government Code.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 3 – CASH AND INVESTMENTS - Continued**

*Investments, continued*

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Agriculture Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Investment in Farmer Mac may not exceed 10% of the total portfolio.
- Purchases of Supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated “Aa3, AA or AA” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence at the time of purchase.
- Purchases of Bankers’ Acceptances (“BAs”) are limited to issues by domestic U.S. or foreign banks. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence at the time of purchase.
- Deposits up to \$10,000,000 may be invested in banks and savings and loans and deposits shall not exceed the net worth of that depository. Depositories must have a short-term rating of “P1, A1, or F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. Deposits shall be either insured by Federal Deposit Insurance Corporation (“FDIC”) or collateralized in the manner prescribed by State law for depositories.
- Commercial paper eligible for investment must be rated “P1, A1 or F1” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of \$500,000,000 and shall issue debt, other than commercial paper, if any, that is rated “A3, A- or A-” or higher, by Moody’s, S&P, or Fitch, respectively.
- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer short-term rating of “P1, A1, F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence at the time of purchase.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 3 – CASH AND INVESTMENTS - Continued**

*Investments, continued*

- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City’s Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of the repurchase agreement’s face value.
- Reverse repurchase agreements under the Policy are limited to the lesser of \$25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.
- Corporate medium term notes eligible for investment must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.
- Funds invested in Local Agency Investment Fund (“LAIF”), a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is \$65,000,000.
- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission (“SEC”) and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years of experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of \$500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and must be maintained at no less than \$1.00 per share.
- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 3 – CASH AND INVESTMENTS - Continued**

*Investments, continued*

- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a provider's inability to meet its contractual obligations.
- Mortgage backed securities and collateralized mortgage obligations must be rated "AA-" or better by a nationally recognized rating service.
- Asset backed securities must be rated "AA-" or better by a nationally recognized rating service.

The Policy permits the City Director of Finance acting as Chief Financial Officer for the SARA to authorize investments that depart from the Policy's limits if such an action is in the best interest of the SARA and is otherwise consistent with the Policy and applicable City, state and federal laws.

The SARA also has investments subject to provisions of the bond indentures of the former Agency's various bond issues until December 21, 2017 when the former Agency's bond issues were refunded by the SARA's 2017 Tax Allocation Refunding Bonds (see Note 7) and as of December 21, 2017 the indenture for the 2017 Tax Allocation Refunding Bonds. According to the bond indentures, the SARA is permitted to invest in the City's cash and investment pool, 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.

At June 30, 2019, the SARA invested an amount of \$56,336,586 with LAIF, which is restricted for enforceable obligations. The weighted average maturity of LAIF was 173 days at June 30, 2019.

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2019 was approximately \$24.6 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The PMIA is not registered with the SEC, but is required to invest according to California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2019 was approximately \$105.7 billion and of that amount, 70.72% was invested in U.S. Treasuries and agencies, 22.15% in depository securities, 6.37% in commercial paper, and 0.74% in loans.

The LAIF is part of the State's Pooled Money Investment Account that allows cities, counties and special districts to place money into the fund. LAIF operating accounts allow a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than \$5,000 and in increments of a thousand. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal every 30 days.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 3 – CASH AND INVESTMENTS - Continued**

***Fair Value Measurement Categorization***

The SARA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The Money Market Mutual Funds and LAIF are valued by net asset value. The inputs and techniques used for securities are not necessarily an indication of risk associated with investing in these securities. The SARA's investments in Money Market Mutual Funds and LAIF are not subject to the fair value hierarchy.

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the SARA 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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the SARA, where the SARA's funds are invested, will not be able to recover the value of its investment or collateral securities that are in the possession of another 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 SARA's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the SARA's name.

As of June 30, 2019, none of the SARA's bank balance was exposed to custodial credit risk because the balance was under the FDIC insurance coverage limit of \$250,000. The actual book balance of bank deposits amounted to \$100,351 at June 30, 2019.

The SARA 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 SARA employs the trust department of a bank or trustee as the custodian of certain SARA investments, regardless of their form.

***Interest Rate Risk***

The fair value of fixed income investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. One of the ways that the SARA manages its exposure to interest rate risk is by purchasing shorter-term investments and by timing the cash flows from the maturities as necessary to provide the cash flow and liquidity needs for operations.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 3 – CASH AND INVESTMENTS - Continued**

***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 SARA'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.

The following schedule indicates the interest rate and credit risk of the SARA's investments at June 30, 2019:

	Moody's Credit Rating	Maturity ( in Days)			Balance
		Under 30	31-180	181-365	
Investments:					
LAIF	Not rated	\$ -	\$ 56,336,586	\$ -	\$ 56,336,586
Money Market Mutual Fund	Aaa	117,797,328	-	-	117,797,328
Subtotal Investments					<u>174,133,914</u>
Bank Deposits					100,351
Total Cash & Investments					<u>\$ 174,234,265</u>

***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 SARA. 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.

***Restricted Cash and Investments:***

***Held with Fiscal Agents***

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, reserve requirements, and temporary investments of unexpended bond proceeds. At June 30, 2019, the amounts held by the trustee for the 2017 Tax Allocation Refunding Bonds aggregated to \$117,797,328. All restricted investments held by the trustee at June 30, 2019 were in compliance with the bond indentures.

***Held in Escrow Accounts***

Pursuant to contracts and agreements, certain funds are required to be held in escrow accounts and are restricted for a particular purpose. These funds remain the property of the SARA until used. Upon the sale of the Convention Center South Hall Site to the City on October 10, 2018, the Toxic Fund was assigned to the City. At June 30, 2019, the escrow accounts have no balance.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 4 – LOANS RECEIVABLE**

Composition of loans receivable at June 30, 2019 is as follows:

Description	Loan Receivable	Accrued Interest Receivable	Allowance	Net
1 Parcels of land sold to developers	\$ 1,728,360	\$ -	\$ (1,728,360)	\$ -
2 HUD Section 108 loans	972,202	32,933	(1,005,135)	-
3 Historic home relocation loans	1,687,109	-	(1,687,109)	-
4 Rehabilitation of residential units	100,000	31,512	(131,512)	-
5 Commercial building loans	8,190,270	1,011,766	(4,005,279)	5,196,757
6 Rehabilitation of historic hotel building	5,265,000	-	(5,265,000)	-
Total	<u>\$ 17,942,941</u>	<u>\$ 1,076,211</u>	<u>\$ (13,822,395)</u>	<u>\$ 5,196,757</u>

- Over the years, parcels of land had been sold to commercial real estate developers in various mixed-use projects. In one downtown residential condominium project located at 360 South Market Street in San Jose, the original developer entered into a Disposition and Development Agreement (“DDA”) with the Agency in 2005 to develop a mixed use project on the property (“360 Residences Project”). The 360 Residences Project was acquired by a new owner at a foreclosure sale on March 25, 2011 subject to the original DDA. On April 26, 2011, the DDA was amended to give the new owner the right to convert the project from for-sale to rental. The DDA was also amended to give the new owner the authority to subsequently convert any units back to for-sale units. Under the amended DDA, the new owner also executed a new promissory note payable to the Agency in the principal amount of \$1,728,360. The principal under the promissory note is due and payable when all proceeds of sold condominium units exceed an invested capital threshold. At June 30, 2019, the amount due from the new owner was \$1,728,360. A provision for doubtful accounts was recorded for the entire balance due under the promissory note because the likelihood of the payment criteria being met is questionable in the foreseeable future.
- 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 and bear interest at an annual rate of 3%. At June 30, 2019, the amount due from the developers was \$1,005,135. A provision for the doubtful accounts was recorded for the entire balance as a conservative measure.
- The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were sold to families and a non-profit agency. The owners made interior and exterior improvements using loans provided by the Agency. 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. As long as the owners are compliant with the terms and conditions of the agreement, each year a portion of the loan is amortized and forgiven. The total loans of \$1,687,109 have been offset with a provision for doubtful accounts as it is anticipated that these loans will be fully amortized over the period of the loans.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 4 – LOANS RECEIVABLE - Continued**

4. 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. At June 30, 2019, the total amount due from such loans was \$131,512. A provision for doubtful accounts was provided for the entire loan balance due to the extended timeline before payments commence.
5. The Agency extended and amended various loans to property owners for the rehabilitation and improvements of commercial buildings. The loans are due within 10 to 25 years. The principal amount of the loans vary and they bear different interest rates. At June 30, 2019, the total amount due from these loans was \$9,202,036. An allowance for doubtful accounts in the amount of \$4,005,279 was made for potential write-offs.
6. 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 on a semi-annual basis starting in FY 2021. At June 30, 2019, the amount due from the developer was \$5,265,000. A provision for doubtful accounts was provided for the entire loan balance due to the extended timeline before payments commence.

**NOTE 5 – PROPERTY HELD FOR RESALE**

A summary of changes of the property held for resale during the year ended June 30, 2019 is as follows:

<u>Property Description</u>	<u>July 1, 2018</u>	<u>Addition</u>	<u>Disposal</u>	<u>Transfer</u>	<u>June 30, 2019</u>
N. San Pedro Housing site	\$ 33,456,710	\$ 3,089,927	\$ (30,694,027)	\$ (5,852,610)	\$ -

In FY 2019, the SARA disposed multiple properties of the North San Pedro Housing site as described below:

- In August 2018, the SARA sold one property commonly known as Block D to TM San Jose 78, LLC for \$1,584,620. The property had the net book value of \$495,938 and the SARA recognized a gain of \$1,079,996 after transaction costs of \$8,686. At the close of escrow, the net sale proceeds of \$1,575,934 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.
- In September 2018, the SARA sold one property commonly known as Block E to First American Exchange Company, LLC as Qualified Intermediary for San Pedro Life I, LLC for \$4,704,627. The property had the net book value of \$2,589,616 and the SARA recognized a gain of \$2,100,377 after transaction costs of \$14,634. At the close of escrow, the net sale proceeds of \$4,689,993 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 5 – PROPERTY HELD FOR RESALE - Continued**

- In September 2018, the SARA sold one property commonly known as Block B/F to 171 W. Julian Street Apartments Investors LLC for \$10,288,633. The property had the net book value of \$27,608,473 and the SARA recognized a loss of \$17,349,735 after transaction costs of \$29,895. At the close of escrow, the net sale proceeds of \$10,258,738 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.
- In December 2018, one property commonly known as Block G (Bassett Street and Terraine Street) has been transferred from the SARA to First Community Housing. The property had the net book value of \$5,124,752 and the SARA recognized a loss of \$5,124,752.
- In January 2019, one property commonly known as North San Pedro or Bassett Park (75 Bassett Street) has been transferred from the SARA to the City. The property had the net book value of \$727,856 and the SARA recognized a loss of \$727,856.

**NOTE 6 – CAPITAL ASSETS**

A summary of changes in the SARA’s capital assets for the year ended June 30, 2019 is as follows:

	<u>July 1, 2018</u>	<u>Addition</u>	<u>Disposal</u>	<u>Transfer</u>	<u>June 30, 2019</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 47,677,113	\$ -	\$ (16,851,011)	\$ (27,933,752)	\$ 2,892,350
Total Capital Assets, Not Being Depreciated	<u>47,677,113</u>	<u>-</u>	<u>(16,851,011)</u>	<u>(27,933,752)</u>	<u>2,892,350</u>
Capital Assets, Being Depreciated:					
Buildings	82,610,412	-	(7,155,774)	-	75,454,638
Building and other Improvements	107,985	-	(107,985)	-	-
Equipment	1,144,956	-	(1,144,956)	-	-
Total Capital Assets, Being Depreciated	<u>83,863,353</u>	<u>-</u>	<u>(8,408,715)</u>	<u>-</u>	<u>75,454,638</u>
Less Accumulated Depreciation:					
Buildings	25,171,940	1,976,850	(2,292,257)	-	24,856,533
Building and other Improvements	68,393	1,992	(70,385)	-	-
Equipment	1,144,956	-	(1,144,956)	-	-
Total Accumulated Depreciation	<u>26,385,289</u>	<u>1,978,842</u>	<u>(3,507,598)</u>	<u>-</u>	<u>24,856,533</u>
Total Capital Assets, Being Depreciated, net	<u>57,478,064</u>	<u>(1,978,842)</u>	<u>(4,901,117)</u>	<u>-</u>	<u>50,598,105</u>
Total Capital Assets, net	<u>\$ 105,155,177</u>	<u>\$ (1,978,842)</u>	<u>\$ (21,752,128)</u>	<u>\$ (27,933,752)</u>	<u>\$ 53,490,455</u>

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 6 – CAPITAL ASSETS - Continued**

On August 27, 2015, the Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the Disposition Process For Sale of Properties, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. Additional amendments to the Asset Disposition Schedule were approved by the Oversight Board on January 14, 2016, April 28, 2016, October 27, 2016, and April 13, 2017.

In FY 2019, the SARA disposed the following properties:

- On August 24, 2018, the SARA transferred properties commonly known as Diridon Properties (8, 102, 105, 150 S Montgomery St., 510 W San Fernando St., 645 Park Ave.) to the City with a net book value of \$27,933,752. The transfer was pursuant to the compensation agreement entered into by and among the SARA, the City, and certain taxing entities (local agencies and school districts) as prescribed under the Health and Safety Code, on January 1, 2018.
- On October 9, 2018, the SARA sold one property, San Jose Stage (490 South 1st Street), for \$2,300,000. The property had the net book value of \$1,021,596 and the SARA recognized a gain of \$1,270,132 after transaction costs of \$8,272. At the close of escrow, the net sale proceeds of \$2,291,728 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.
- On October 10, 2018, the SARA sold one property, South Hall Convention Center (107 Balbach Street), to the City for \$47,000,000. The property had the net book value of \$14,557,943 and the SARA recognized a gain of \$32,427,591 after transaction costs of \$14,466. A portion of the proceeds were used to pay off the HUD loan totaling \$16,310,000 principal plus \$81,746 accrued interest. At the close of escrow, the remaining net sale proceeds of \$30,593,788 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.
- On December 27, 2018, the SARA sold one property, Jose Theater (62 South 2<sup>nd</sup> Street), for \$2,139,000. The property had the net book value of \$5,709,335 and the SARA recognized a loss of \$3,578,202 after transaction costs of \$7,867. At the close of escrow, the net sale proceeds of \$2,131,133 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.
- On April 29, 2019, the SARA disposed all equipment with net book value of zero. The equipment had an initial book value of \$1,144,956, which was fully depreciated.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT**

The following is a summary of long-term debt of the SARA at June 30, 2019 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2019 Balance
<b>Senior Tax Allocation Bonds:</b>							
2017 Refunding Bonds Series A	Refunding - merged area projects	\$ 79,825	12/21/2017	8/1/2035	5.00%	\$0 - 53,810	\$ 79,825
2017 Refunding Boonds Series A-T	Refunding - merged area projects	1,333,325	12/21/2017	8/1/2034	1.90-3.38%	\$32,910 - 93,735	1,247,600
<b>Total Senior Tax Allocation Bonds</b>							<u>1,327,425</u>
<b>Subordinate Tax Allocation Bonds:</b>							
2017 Refunding Bonds Series B	Refunding - merged area projects	264,390	12/21/2017	8/1/2029	2.00-5.00%	\$7,820 - 29,835	240,155
<b>Total Subordinate Tax Allocation Bonds</b>							<u>240,155</u>
<b>Other Long-Term Debt:</b>							
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2020	3.00%	\$0 - 15,561	15,945
City of San José (SERAF) Loan	Fund the State's SERAF Payment	10,000	2010-2011	6/30/2020	3.00%	\$0 - 12,441	12,742
City of San José - Parking Fund Loans	Fund debt service	13,528	2006-2011	6/30/2020	3.00%	\$0 - 13,528	17,862
<b>Total Other Long-Term Debt</b>							<u>46,549</u>
<b>Total Long-Term Debt</b>							<u>\$ 1,614,129</u>

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

The following summarizes the changes in long-term debt and other obligations for the year ended June 30, 2019 (in thousands):

	June 30, 2018	Additions	Reductions	June 30, 2019	Amount Due Within One Year
Senior Tax Allocation Bonds:					
2017 Refunding Bonds Series A	\$ 79,825	\$ -	\$ -	\$ 79,825	\$ -
2017 Refunding Bonds Series A-T	1,333,325	-	(85,725)	1,247,600	70,570
Subtotal Senior Tax Allocation Bonds	<u>1,413,150</u>	<u>-</u>	<u>(85,725)</u>	<u>1,327,425</u>	<u>70,570</u>
Subordinate Tax Allocation Bonds:					
2017 Refunding Bonds Series B	264,390	-	(24,235)	240,155	20,190
Subtotal Subordinate Tax Allocation Bonds	<u>264,390</u>	<u>-</u>	<u>(24,235)</u>	<u>240,155</u>	<u>20,190</u>
Other Long -Term Debt:					
HUD Section 108 Loan (CIM)	7,715	-	(7,715)	-	-
HUD Section 108 Loan (Story & King)	10,485	-	(10,485)	-	-
City of San José - SERAF Loans (Principal)	22,816	-	-	22,816	22,816
City of San José - SERAF Loans (Interest)	5,186	685	-	5,871	5,871
City of San José - Parking Fund Loans (Principal)	13,528	-	-	13,528	13,528
City of San José - Parking Fund Loans (Interest)	4,397	-	(63)	4,334	4,334
City of San José - Reimbursement Agreement	1,421	867	(2,288)	-	-
Subtotal Other Long-Term Debt	<u>65,548</u>	<u>1,552</u>	<u>(20,551)</u>	<u>46,549</u>	<u>46,549</u>
Subtotal Long-Term Debt before Unamortized	1,743,088	1,552	(130,511)	1,614,129	137,309
Issuance Premium (Discount), Net	49,025	-	(4,204)	44,821	4,205
Total Long-Term Obligations	<u>\$ 1,792,113</u>	<u>\$ 1,552</u>	<u>\$ (134,715)</u>	<u>\$ 1,658,950</u>	<u>\$ 141,514</u>

Total RPTTF revenue distributed by the County to the SARA in the FY 2019 was \$190,333,902 which was used to pay debt service and debt related expenses on the Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds and enforceable obligations. During the year ended June 30, 2019, the County withheld \$36,409,663 in RPTTF for payments of its current year's pass-through payments. The RPTTF revenue excludes the San Jose Unified School District senior pass-through (\$5,850,161), AB1290 subordinate pass-through (\$24,395,849), and residual balance (\$46,730,058) distributed to taxing entities.

All summaries of documents related to debt contained in this Note are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this Note is qualified in its entirety by reference to such document, which is on file with the SARA's Chief Financial Officer.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

***2017 Tax Allocation Refunding Bonds***

On December 21, 2017, the SARA issued the 2017 Refunding Bonds pursuant to an Indenture of Trust dated as of December 1, 2017 (“2017 Indenture”), by and between the SARA and Wilmington Trust, National Association, as trustee (“Trustee”). The 2017 Refunding Bonds were issued in the aggregate principal amount of \$1,677,540,000, in two senior series and one subordinate series. The senior series bonds, collectively known as 2017 Senior Tax Allocation Refunding Bonds, consist of \$79,825,000 of the tax-exempt senior lien 2017 Series A Bonds (“2017A Bonds”) and \$1,333,325,000 of taxable senior lien 2017 Series A-T Bonds (“2017A-T Bonds”). The subordinate series bonds, described as 2017 Subordinate Tax Allocation Refunding Bonds, consist of \$264,390,000 of tax-exempt subordinate lien 2017 Series B Bonds.

Proceeds of the 2017 Refunding Bonds were used to (i) redeem and defease or prepay 23 series of Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds, the 4<sup>th</sup> and San Fernando Parking Facility Pledge Agreement entered into in connection with the Financing Authority’s Series 2001A Bonds and the Second Amended and Restated Reimbursement Agreement entered into in connection with the Financing Authority’s Series 2001F and 2001G Bonds (paid in full in September 2018), all as listed in the previous table and (ii) pay the costs of issuing the 2017 Refunding Bonds, including the cost of debt service reserve insurance policies. The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debt in a refunding transaction) and the net carrying amount of the Refunded Obligations. This difference was reported as deferred outflows of resources in the Statement of Fiduciary Net Position and is being amortized over the next 17 years.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

***2017 Tax Allocation Refunding Bonds, continued***

The 2017 Refunding Bonds are secured and payable from Tax Revenues and certain funds and accounts held by the Trustee. Tax Revenues are generally defined in the 2017 Indenture as the portion of property tax revenues collected in the Merged Project Area derived from incremental growth in assessed property values over the initial base year values in each of 17 component areas, less certain County administrative fees and the AB1290 statutory pass-through payment to the San José Unified School District and excluding the amounts collected pursuant to the pension override or State Water Project override provisions of the Redevelopment Dissolution Law. All other AB1290 statutory pass-through payments and the negotiated pass-through payments to Santa Clara County are subordinate to the payment of debt service on the 2017 Refunding Bonds and other payment obligations under the 2017 Indenture. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made from funds on deposit in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment of debt service on the 2017 Refunding Bonds unless there are insufficient funds to pay such debt service and other payment obligations under the 2017 Indenture and certain other conditions are satisfied). Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose. The SARA has covenanted in the 2017 Indenture to comply with the provisions of the Redevelopment Dissolution Law related to placing its obligations under the 2017 Indenture on the recognized obligations under the 2017 Indenture throughout the term of the 2017 Refunding Bonds and, if applicable, file a Notice of Insufficiency in the event that are insufficient Tax Revenue to make payment of debt service or other payment obligations under the 2017 Indenture. See Note 2 for a general description of the provisions of the Redevelopment Dissolution Act regarding distributions from the RPTTF and order of priority of payments therefrom.

The SARA has covenanted in the 2017 Indenture to take such actions as required under the Redevelopment Dissolution Law to include in each annual Recognized Obligation Payment Schedule the amount of debt service on the 2017 Refunding Bonds so as to enable the County Auditor-Controller to distribute from the RPTTF to SARA on each January 2 and June 1 the amounts required for the SARA to pay principal of, and interest on, the 2017 Refunding Bonds coming due in the respective six-month period. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF the amounts to be held by the SARA as a reserve until the next six-month period, as contemplated by the Redevelopment Dissolution Law, that are necessary to comply with the 2017 Indenture.

A separate municipal bond debt service reserve policy issued by Build America Mutual Assurance Company (“BAM”) was deposited in the Senior Bonds Reserve Account of the Bond Reserve Fund for the 2017 Senior Tax Allocation Refunding Bonds (“2017 Senior Bonds Reserve Policy”) and in the Subordinate Bonds Reserve account of the Bond Reserve Fund for the 2017 Subordinate Tax Allocation Bonds (“2017 Subordinate Bonds Reserve Policy”). The 2017 Senior Bonds Reserve Policy is in the amount of \$112,102,119, which is equal to the Senior Bonds Reserve Requirement under the 2017 Indenture. The 2017 Subordinate Bonds Reserve Policy is in the amount of \$30,978,128, which is equal to the Subordinate Bonds Reserve Requirement under the 2017 Indenture.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

***2017 Tax Allocation Refunding Bonds, continued***

The 2017 Senior Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Senior Tax Allocation Refunding Bonds are no longer outstanding under the 2017 Indenture and (ii) August 1, 2035. The 2017 Subordinate Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Subordinate Tax Allocation Refunding Bonds are no longer outstanding under the Indenture and (ii) August 1, 2029. Per the terms of the 2017 Indenture, the SARA is not obligated to replace either reserve policy or to fund either reserve account with cash if, at any time that the 2017 Senior Tax Allocation Refunding Bonds or 2017 Subordinate Tax Allocation Refunding Bonds are outstanding, amounts are not available under such policy or if the rating of the claims-paying ability of BAM is downgraded, suspended or withdrawn.

The 2017 Senior Tax Allocation Refunding Bonds were rated “AA” by Standard & Poor’s and Fitch and the 2017 Subordinate Tax Allocation Refunding Bonds were rated “AA-” by Standard & Poor’s and Fitch.

**2017 Senior Tax Allocation Refunding Bonds** - The 2017 Senior Tax Allocation Refunding Bonds were issued in two series – the tax-exempt 2017A Bonds and the taxable 2017A-T Bonds, with a parity senior lien on Tax Revenues. The 2017A Bonds are structured as two serial maturities in 2034 and 2035; both maturities bear interest at 5% per annum. The 2017A-T Bonds are structured as serial maturities in 2018 through and including 2029, and a term bond of \$361,845,000 maturing in 2034 with mandatory payment of principal beginning on August 1, 2030 through final maturity on August 1, 2034. The 2017A-T Bonds bear interest at rates ranging from 1.898% to 3.375% per annum. The 2017A-T Bonds have approximately \$183,000,000 in par subject to call on or after August 1, 2027. The total debt service payments on the 2017 Senior Tax Allocation Refunding Bonds was \$128,068,167 for the year ended June 30, 2019. The principal and interest remaining on the 2017 Senior Tax Allocation Refunding Bonds as of June 30, 2019 is \$1,708,438,711.

**2017 Subordinate Tax Allocation Refunding Bonds** - The 2017 Subordinate Tax Allocation Refunding Bonds are structured as serial tax-exempt bonds with maturities in 2018 through 2029; and bear interest at rates ranging from 2% to 5% per annum. The 2017 Subordinate Tax Allocation Refunding Bonds are callable on or after August 1, 2027 at par. In total, approximately \$97 million in par is subject to this ten-year par call. The 2017 Subordinate Tax Allocation Refunding Bonds are payable from Tax Revenues on a subordinate basis to the 2017 Senior Tax Allocation Refunding Bonds. The debt service payment on the 2017 Subordinate Tax Allocation Refunding Bonds was \$36,757,650 for the year ended June 30, 2019. The principal and interest remaining on the 2017 Subordinate Tax Allocation Refunding Bonds as of June 30, 2019 is \$302,657,125.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

***2017 Tax Allocation Refunding Bonds, continued***

**2017 Refunding Bonds - Events of Default** - The events of default under the 2017 Indenture for the 2017 Refunding Bonds are: (i) failure to pay debt service when due; (ii) failure to comply with covenants and conditions of the 2017 Indenture or the 2017 Refunding Bonds or any Senior Parity Debt Instrument or Subordinate Parity Debt Instrument (as those terms are defined in the 2017 Indenture) and such default shall have continued for a period of 30 days following SARA’s receipt from the Trustee or any bond owner of written notice of the occurrence of such default, provided that if in SARA’s reasonable opinion the failure stated in the notice can be corrected, but not within such 30 day period, such failure will not constitute an event of default if corrective action is instituted by the SARA within such 30 day period and SARA thereafter diligently and in good faith cures such failure in a reasonable period of time; or (iii) bankruptcy or similar debtor relief proceedings. In the event of default, the Trustee may or if requested by the owners of a majority of the principal amount of the outstanding 2017 Senior Tax Allocation Refunding Bonds or the 2017 Subordinate Tax Allocation Refunding Bonds, as applicable, shall, subject to the provisions of the 2017 Indenture, exercise any remedies available to the Trustee in law or at equity. The 2017 Indenture does not provide for acceleration of payment of the 2017 Refunding Bonds. The 2017 Indenture, however, provides for application of Tax Revenues upon an event of default in the order of priority set forth in the 2017 Indenture.

As of June 30, 2019, the amounts to be paid from the escrow funds established for the Refunded Obligations are as follows (in thousands):

Redevelopment Agency Bonds Refunded in 2017 Escrow Accounts (December 21, 2017)	Amount	Redemption Date
RDA Housing Set-Aside Tax Allocation Bonds Series 2010A-1	\$ 52,820	8/1/2020

***HUD Section 108 Loans***

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

On October 10, 2018, the SARA sold one property (Convention Center South Hall Site) to the City for \$47,000,000. The property was used as collateral for HUD loans associated with the former Agency which (\$16,310,000 principal plus \$81,746 accrued interest) were paid in full at closing. The remaining net sale proceeds from the property in the amount of \$30,593,788 were remitted to the County Auditor-Controller and subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

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

On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of \$2,050,000,000 of property tax increment in a Supplemental Educational Revenue Augmentation Funds (“SERAF”) to be distributed to meet the State’s Proposition 98 obligations to schools. The Agency’s SERAF obligation was \$62 million in FY 2010 (“2010 SERAF Obligation”) and \$12.8 million in FY 2011 (“2011 SERAF Obligation”). Payments were made by May 10th of each respective fiscal year

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of \$75 million to pay the 2010 SERAF Obligation and the 2011 SERAF Obligation (“SERAF Loan”). The sources of the SERAF Loan to pay the 2010 SERAF Obligation (\$62 million) were \$40 million from the City’s Low and Moderate Income Housing Fund that had been made available following the issuance of the 2010 Housing Series C Bonds, which was specifically authorized by the legislation, and idle moneys from the City special funds (\$10 million) and funds from the Financing Authority’s Commercial Paper Program (\$12 million). The source of the SERAF Loan to pay the 2011 SERAF Obligation was \$12.8 million from the City’s Low and Moderate Income Housing Fund. The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA as more particularly discussed below in the Parking Fund Loans section. As such, the \$10 million used to pay a portion of the 2010 SERAF Obligation and its related accumulated interest in the amount \$160,143 from the City special funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA’s extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of \$2.9 million were also invalidated in 2012.

The remaining source of the SERAF Loan used to pay the 2010 SERAF Obligation (\$40 million of 2010 Series C Housing Bonds and \$12 million from the Financing Authority’s Commercial Paper program) were assumed by the SARA and were listed in the ROPS as enforceable obligations. The source of funds used to pay the 2011 SERAF Obligation was determined to be a housing asset and was transferred to the City as the Successor Housing Agency and was also listed on the ROPS as an enforceable obligation.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan used to pay a portion of the 2010 SERAF Obligation (\$40 million of 2010 Housing Series C Bonds and \$12 million from the Financing Authority’s Commercial Paper program) should not be reported in the ROPS as an enforceable obligation since the sources of the SERAF Loan were already listed on the ROPS.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

***Supplemental Educational Revenue Augmentation Funds (SERAF) Loan, continued***

On May 26, 2016, the Oversight Board approved a partial reinstatement of the SERAF Loan used to pay the 2010 SERAF Obligation to restore the moneys originally loaned from the City’s special funds in the amount of \$10 million and also approved the repayment schedule for the source of funds used to pay the 2011 SERAF Obligation in the amount of \$12.8 million plus accrued interest. The Oversight Board determined that the remaining portion of the SERAF Loan used to pay the 2010 SERAF Obligation in the amount of \$52 million plus accrued interest in the amount of \$905,351 is not an enforceable obligation and directed the SARA to remove that portion of the loan from its financial statements. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

On May 17, 2017, the DOF approved the ROPS 17-18, which included the SERAF loans from the City in the principal amount of \$22,815,668.

As of June 30, 2019, the remaining portion of the SERAF Loan has an outstanding principal and accumulated accrued interest balance of \$22,815,668 and \$5,871,400, respectively, and bears a simple interest rate of 3%. The SARA is anticipated to pay the amount owed in full to the City in FY 2020.

The terms and repayment schedule of the SERAF Loan, as reinstated, were revised to conform with the Redevelopment Dissolution Law. The City’s remedies against the SARA in the event of SARA’s default on the SERAF Loan would also be subject to the Redevelopment Dissolution Law. See Note 1 for general information about the Redevelopment Dissolution Law.

***Parking Fund Loans***

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB XI 26, and with narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB XI 26, which was subsequently amended by AB 1484 and SB 107. However, with the approval of AB 1484 in June 2012, certain loans may be reinstated as enforceable obligations of the SARA contingent upon the following: 1) a finding by the DOF that certain specified audits of the SARA have been completed (evidenced by a Finding of Completion), and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of AB 1484, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

The Parking Fund Loans were reinstated as enforceable obligations on ROPS 17-18 in accordance with Health and Safety Code Section 34191.4 (b) with Oversight Board approval on January 12, 2017. The DOF approved the Parking Fund Loans on March 28, 2017. Because the loans are reinstated City loans, the principal outstanding will accrue 3% simple interest and be paid on ROPS 19-20. As of June 30, 2019, the Parking Fund Loans have outstanding principal and accumulated accrued interest balance of \$13,528,293 and \$4,334,313, respectively. The SARA is anticipated to pay the amount owed in full to the City in FY 2020.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 7 – DEBT- Continued**

*Parking Fund Loans, continued*

The terms and repayment schedule of the Parking Fund Loan, as reinstated, were revised to conform with the Redevelopment Dissolution Law. The City’s remedies against the SARA in the event of SARA’s default on the Parking Fund Loan would also be subject to the Redevelopment Dissolution Law. See Note 1 for general information about the Redevelopment Dissolution Law.

*Tax Sharing Agreement with the County of Santa Clara*

Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement (“Original Agreement”) under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (“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 (“Amended Agreement”), which amended and restated the Original Agreement in its entirety. 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 required the Agency to transfer funds to the County to pay for such projects (“Delegated Payment”). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency’s Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

*Debt Service Requirements*

The debt service requirements for all debt are based upon a fixed rate of interest.

The annual requirements to amortize outstanding tax allocation bonds at June 30, 2019, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Principal	Interest
2020	\$ 90,760	\$ 52,292
2021	93,250	49,704
2022	95,940	46,890
2023	98,880	43,842
2024	102,035	40,555
2025-2029	542,495	145,929
2030-2034	431,485	59,063
2035-2036	112,735	5,241
Total	<u>\$ 1,567,580</u>	<u>\$ 443,516</u>

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 8 – TRANSACTIONS WITH THE CITY OF SAN JOSÉ**

*Advances to the City*

The Agency advanced a portion of a loan made by the City’s Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has recorded a long-term receivable in the amount of \$739,000 at June 30, 2019.

*Long-Term Reimbursement Agreement*

When redevelopment property tax revenues are not sufficient to cover the SARA’s enforceable obligations, the City Council has committed other sources of funding to cover costs related to the SARA annual administrative budget and City support service expenses. On September 26, 2013 (as amended on August 27, 2015), the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement in order to establish an obligation for the SARA to repay the City for these advances.

Effective September 22, 2015, with the passage of SB 107, a city may loan funds to a successor agency that receives an insufficient distribution from the RPTTF and an enforceable obligation shall be deemed to be created for such loans. The receipt and use of such funds shall be reflected on the ROPS and subject to the approval of the Oversight Board. The interest payable on any such loan shall be calculated on a fixed annual simple basis at a rate not to exceed the most recently published interest rate for funds deposited into the Local Agency Investment Fund during the previous fiscal quarter. The repayment of such loan shall be subordinate to other approved enforceable obligations. Given the relevant provisions of SB 107, a reimbursement agreement is no longer necessary to establish the obligation to repay such loan.

As of June 30, 2019, the total outstanding advances from the City of \$2,287,890 was paid in full.

The following summarizes the changes in the City’s advances to the SARA for the year ended June 30, 2019:

<u>Description</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Other Administrative Advances:				
Direct SARA Administrative services	\$ 293,701	\$ 866,519	\$ (1,160,220)	\$ -
Indirect City Support Services	1,081,802	-	(1,081,802)	-
Unsecured Enforceable Obligations	45,868	-	(45,868)	-
Total other Administrative Advances	<u>\$ 1,421,371</u>	<u>\$ 866,519</u>	<u>\$ (2,287,890)</u>	<u>\$ -</u>

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

***Risk Management***

The SARA is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities for which the SARA carries a property and casualty insurance policy, or is self-insured. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated using actuarial methods or other estimating techniques. The technique to estimate claims is based on many complex factors, such as inflation, changes in legal doctrines, past settlements, and damages awarded. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimated claims liability will include amounts of incremental claims adjustment expense related to specific claims.

The SARA does not have any claims liabilities outstanding at June 30, 2019.

***Contractual Commitments***

At June 30, 2019, the SARA had \$3,661,685 for contractual obligations and commitments.

***Leases***

A schedule by years of future minimum rental payments required under the SARA’s non-cancelable operating leases for office facilities, business equipment, and land at June 30, 2019 is as follows (in thousands):

<u>Year Ending June 30th</u>	<u>Minimum Payments</u>
2020	\$ 124
2021	60
Total	<u>\$ 184</u>

The total rent expense for operating leases during the year ended June 30, 2019 was \$563,191.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ**  
(A Component Unit of the City of San José, California)  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2019

**NOTE 10 – SUBSEQUENT EVENTS**

On July 8, 2019, the SARA received two letters from the Internal Revenue Service the (“IRS”) notifying SARA that three series of Agency Bonds had been selected for audit: \$59,000,000 Merged Area Redevelopment Project Revenue Bonds consisting of the \$29,500,000 1996 Series A and the \$29,500,000 1996 Series B (“Series 1996 Bonds”) and the \$240,000,000 Merged Area Redevelopment Project Tax Allocation Bonds, Series 1999 (“Series 1999 Bonds”). The Agency Bonds under audit were refunded by SARA’s taxable 2017 Series A-T Senior Taxable Tax Allocation Refunding Bonds.

The SARA anticipates receiving a letter from the IRS in which the IRS advises that it will close the audit of the 1996 Bonds without change to the status of the 1996 Bonds. However, there is no assurance that the IRS will in fact issue such a letter.

On November 12, 2019, the SARA received a Form 5701-B, Notice of Proposed Issue, and Form 886-A, Explanation of Items, from the IRS asserting a rebate liability with respect to the 1999 Bonds as of December 21, 2017, in the amount of \$274,239.75 (inclusive of interest and penalties through December 21, 2019). The SARA disagrees with the IRS’s assertion and intends to submit a timely response to the Forms 5701-B and 886-A. The SARA has no formal notification or receipt of a “Proposed Adverse Determination” from the IRS that would adversely affect the tax-exempt status of the 1999 Bonds as of the date of this Notice and cannot therefore determine the full scope or exact substance of the same, nor evaluate the probability of success, or appeal or resolution via closing agreement, of the same. The SARA anticipates timely appealing any such Proposed Adverse Determination, if ever issued by the IRS. In the event the IRS were to issue any such Proposed Adverse Determination and, thereafter, prevail in its conclusion that a rebate liability exists with respect to the 1999 Bonds, the SARA does not believe such conclusion will have a material adverse effect on the finances of the SARA.

On July 18, 2019, the SARA transferred the California Theater property (345 South First Street) to the City. The transfer was pursuant to the compensation agreement entered into by and among the SARA, the City and certain taxing entities (local agencies and school districts) as prescribed under the State Health and Safety Code, on April 8, 2019. As of June 30, 2019, the property had a net book value of \$50,690,453.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited 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, the financial statements of the Successor Agency of the Redevelopment Agency of the City of San José (SARA), a component unit of the City of San José (City), California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the SARA'S basic financial statements, and have issued our report thereon dated November 14, 2019.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the SARA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SARA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SARA'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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the SARA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 14, 2019