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>> Mayor Reed: Good morning. I'd like to call our study session to order. We've got a quorum, and I think we'll be joined by a few more people as we get through the morning. This is a special meeting to consider our redevelopment agency budget. It may seem odd that we're several months into the budget year and we're still talking about the budget. But that was made necessary by a couple of things. The first was, the state of California deciding how much of our money to take. And waiting for the most accurate property assessment information and certainly, economic uncertainty. So we've been operating on a continuation basis. And now we're looking at the rest of the fiscal year with the study session. In case anybody missed the news, the state of California's decided to take $75 million of our redevelopment funds, 62 million this year, and 13 million next year. Which reminds me that if you look back for the next dozen years or so, that the State of California has taken probably about $500 million from the City of San José. Most of that has come out of the General Fund. But this 75 million is coming out of the redevelopment agency budget. And the state continues to take money at the rate of about $40 million a year, not including the $20 million that they're borrowing, from our property taxes, this year. Because of the state's inability to solve its own budget problems, they're taking our money and the agency was forced to lay off nearly a quarter of its workforce a few weeks ago, in response to the state's actions. The city council also, in June, closed a budget shortfall of nearly -- around $80 million in our General Fund. And are now look at other impacts on the General Fund as a result of the state's take away of funding. The redevelopment agency has done a lot of things in this city. I think the total spent on affordable housing out of redevelopment agency is probably about $750 million. Agency has led our effort to do economic development, creating jobs, creating tax revenues for the city, the county, and tax increment for the agency. But we're in difficult times now because of the economy and the State's take, the double-whammy of bad economy, and bad state policy. And so here we are, trying to figure out how to make it all work again. The council did approve some guiding principles, to guide the staff in preparing this budget that we're going to study today. The executive director will discuss those goals in his presentation. But fundamentally our goals when we're dealing with these times and these circumstances is to encourage new development, the private sector investment that will generate jobs and tax revenues for the agency, the city, and the county. So this is the first of several steps in the RDA budget process. We have this discussion today. On the November 12th budget recommendations for councilmembers are due to my office. November 20th I'll release my recommendations in a budget message. December 8th, the council will consider the budget message. December 8th, hopefully approve a budget, and then December 15th, final adoption of the document. And with that I want to turn it over to Harry Mavrogenes to begin the presentation.

>> Harry Mavrogenes: Thank you, mayor and members of the board. We are presenting to you this morning our revised disability reduced operating and capital budget for this year, remaining of this year and as well as a look five years out beyond that. If you look at the budget document, long-term, we have a good future. We believe the economy will come back. I know you have heard from economists at the city budget meetings and of course we have our own economic analysis that is also on our Website that projects relatively flat growth from the next couple of years and then growth again based upon the strength of this vibrant Silicon Valley area that we're in. So keeping that in perspective, long term good future, short term difficulties, we're really trying to deal with those short term difficulties today. Unfortunately there are no easy answers. The mayor's list of guiding principles adopted by this board were very helpful to us, in that it set our priorities in terms of economic development objectives, and we believe that the budget document we presented to you meets those criteria. And we'd be interested in your comments. I'd like to ask John Weis at this time to walk you through some of the presentation on the budget, the background, and where we're at. And then I'd like to myself go through our source and use statement briefly to give you a better sense of what the pressures are. John.

>> John Weis: Thank you very much and good morning council and staff. What I wanted to go over, what we're going to present is an overview of where we've been and then after we go through that we'll have a discussion about the current situation and David Baum will take over after that. But you know, in light of difficult times we have we thought we'd like to suppress where we've been and why we've been there. So this cover slide kind of gives you a history of the agency going from 1970 up to the current time. And how we've evolved from an agency focused on economic development in terms of downtown and the industrial areas into one that's picked up a significant amount of work in the neighborhoods. And not only in the neighborhood business districts, but also through SNI. So just to explain that, our earliest redevelopment project areas were the downtown area, which you see in that square, and then followed very quickly by the purple or lavender areas which are our industrial areas which, as you all know, contribute roughly 85% of our tax increment. That was followed by the small -- the blue colors which are the neighborhood business districts in the early '80s, and then finally, around 1999 and 2000, the green which is the strong neighborhoods initiative. So that today, roughly 18% of the city is in redevelopment

project area. And over that time, beginning really in '77 and the early '80s when we merged our project areas to allow us to do things like fund SNI and neighborhood business districts even though we weren't taking tax increment from them, we've accomplished quite a bit. And focus has been on a combination of downtown, housing and the neighborhoods. So here's a summary of our expenditures in the downtown that's been mostly on large public facilities. The housing number, that number includes all housing including affordable housing. The neighborhoods including SNI, $375 million and the industrial, nearly $300 million. So that since 1988, when the agency no longer was in control, direct control of the housing program and the housing department was created, roughly $508 million has been invested by the agency. And it's generated 18,000 affordable units. Housing projects, which are not housing department but are primarily located in the downtown, which right now is pretty difficult to really understand at all, but they really make up the fabric of downtown between 101, San Fernando, Villa Torino, and Block 4 and Block 5 of Paseo Villas, plus the major, what we call the anchors of downtown, the major facilities that have been created to -- for people to come and gather, including the McEnery Center and Martin Luthur King Library and the HP Pavilion. Along with the support functions of Guadalupe River Park and the California theater, rep theater, tech museum and all of those kinds of investments. We've made substantial investments in hotels and others in the downtown. The downtown hotels, obviously the Fairmont, has been the major investment, but also includes the Marriott and the Hilton. And the downtown hotel renovations include of course the St. Claire, the de Anza and the Montgomery. And Adobe, which is now in their three buildings, began their project in 1994 and completed it in 1998. In our industrial areas, in Rincon, our major employer remains Cisco. And we were involved in their expansion about 10 years ago. At a point in time in the late '90s, Cisco was adding 100,000 square feet of space per month, which really led to their expansion from having roughly a thousand employees in '94 to what they are today, 19,000 employees. We've also done a lot of work in South San José and Edenvale, by expanding the industrial area, and also creating the now really world renowned biocenter which we would hope to have an expansion of sometime soon. In our neighborhood business districts, we've invested close to 300,000, with about 88 in our SNI with another 9 which are already committed, so for a total investment of $375 million. In those neighborhoods, 130 million for community centers and libraries like Biblioteca, the Alum Rock Library, the Alum Rock Youth Center, Mexican Heritage Center, et cetera, street and traffic improvements. Plaza de San José, which is in the middle slide, was a $55 million investment which has completely transformed the Story-King intersection and turned it from an area of complete blight and crime to one of the most sought-after retail areas which has increased return to the city four fold in terms of taxes. So now I'm going to turn it over to David and he's going to give us an overview of where we are now.

>> David Baum: Thank you, John. And so we created this budget against the backdrop of several difficult circumstances. First one being the global financial crisis, which created less financing opportunity for us. Namely, there's been a falloff in our financial partners which insured our debt over the years, companies like MBIA and Ambak and FGIC and FSA have all fallen from what were triple A guarantors to now some junk credits or low-grade guarantors. We've also had several banks interested in providing us financing over the many years here, and some of those banks had shrunk their financing capability. So that's how the global financial crisis has affected us, in particular. The national economic recession has created higher unemployment, higher vacancy rates, lower rents. It's not all bad news for us here, I mean, the Silicon Valley has been fairly resilient, and it's further on in this presentation we'll talk about how well some of our companies are actually doing this year. Harry and the mayor alluded to the state raid, taking $75 million. The $75 million in one fell swoop was greater than all ERAF takes since the early '90s. And so that's what we're grappling with here. The death penalty that is referred to here, talks about if we don't make the payment on May 10th of $62 million, then we would face the -- basically the closing down of the redevelopment agency and the affordable housing program, we believe, where we wouldn't be able to enter into new contracts, we wouldn't be able to issue new bonds and we would have to operate at 75% of what was last year's operating budget. The good news, leading up into this bad news, was the tax increment cap limitation which would have caused us to significantly curtail, if not completely end, our bonding program this year. We were successful, recall in the spring of 2009, of increasing that cap from 7.6 billion to 15 billion, which gives us a new capacity as we recover from this recession to grow our program. As we looked at our budget and this rebalanced, revised budget, we took into account the guiding principles which the mayor and council approved in September. And mostly focused on creating jobs and economic development and trying to renegotiate some of our program where we could, to conserve cash. And here are all the ten guiding principles. In terms of trying to solve this problem, we've had several meetings with our city's staff, and partners. And the legislation that took the $62 million this year has encouraged us to use housing funds. And when we talk to other redevelopment agencies around the state we found that most of them are looking to tap their housing program at this time to make this payment that's looming. And so we're no different, where we are looking to have the

housing funds be used to secure a bond issue of some sort of financings, we've looked at the possibility of variable rate bonds or fixed rate bonds to carry us over. And with the lawsuit that's been filed by the redevelopment association, we hope to prevail as we did last year and not making the payments in May of this year and May of next year. But what remains to be seen. In the meantime we'll need to be able to show the money that we will need to make these payments. The -- I think I already covered this. The death penalty would again have us not entering new contracts, not issuing new debt and curtailing our operating budget which would affect our ability to pay for city services and then it would also impact the 20% program as well. I'm going to now turn it back to Harry to go through the source and use.

>> Harry Mavrogenes: Thank you, David. The source and use funds chart is part of your budget. And of course, we have it up on the screen for you as well. But I wanted to quickly cover some of the aspects of that that are important for your consideration. Our TI growth rate line 1 is based again on the spectrum economics report from year 2 out. Year 1 is actual numbers in. Even though we've had reductions in values this year, we've had new development that has balanced that off. So our actual growth rate was 2.68 in our tax roll. The city's I understand was down about 3% so there is a difference in the redevelopment areas. We do expect some more reductions. I would point out as I have before that when the last resession occurred, the county assessor downgraded about $2 billion worth of real estate. 700 million of that is still under prop 8 appeal. And we do have a large inventory of older buildings in the North San Jose and Edenvale area. And based on the actions taken already, we don't have that far to fall, compared to some of the other cities where they've had a tremendous amount of new development. Add to that development which is in the process of being completed now, we believe will be at zero for the next year, we're projecting zero the year after that. That means both years we're not projecting any new bond issues. Then looking at the outyears of growth, spectrum believes based on development that would possibly happen out there, that the growth rate would occur again. We've averaged 6% growth a year over the life of the agency. So these numbers are not really out of line. Our beginning fund balance is carry-over money, of course, and we have about $124 million towards projects. In addition to the tax increment which this year is up over $200 million. And you can see how it grows slowly and then starts growing a little bit in the out years. We have -- we're proposing a bond issue this year. I will point out that we've had, whether we've got the renewal of the letter of credit with J.P. Morgan, that letter of credit being junior debt to bonds. They are comfortable, they being in that junior position are comfortable with us issuing $30 million in bonds this year. And we're proposing to move that fairly quickly. We're showing the borrowing from the housing department as David said. We're in discussions with the city administration, about how we can do that to minimize the impacts to the housing program. It will curtail activities in the housing program, as the situation has curtailed activity in the agency budget as well. But it will allow a number of major projects to proceed. So we're continuing to work on that. We have not really found any other source, short of tapping some of the money that we pay the city now for other debts that could be a substitute for this. We also are showing miscellaneous revenues of $18 million. We believe very strongly that those are there. We'll certainly be able to go over those with you. But we've averaged about $20 million a year, and that includes land sales, lease revenues, grants and other funds. On our debt we're showing fully funding all our debt service, $143 million. That includes $5 million for the J.P. Morgan pay down. We have prior debt from the state take a few years ago that we are paying down slowly, will be paid down in another eight years, line 19. Our 20% fund, we're showing fully funding the housing program at 40 million, 20% of our increment throughout the budget years line 20. And then of course the ERAF payment that we have to make. Now, question was raised by some people about our repaying back the housing fund. If we do borrow the money, line 17 in the out years shows a payment back of the housing funds. So our intent is to restore the housing funds as quickly as possible. Obviously if we prevail in the lawsuit, we would pay that back. We have the capacity to pay that back almost immediately. So we're very encouraged by the attorneys that are doing the lawsuit for CRA, and we believe will prevail and hopefully relieve us of this angst we have now on the borrowing. We are also paying the debt service for the fourth street garage. We are showing you and recommending a proposal that would have the city parking fund pick up the debt service for two and a half years. The agency build that garage, and has assumed the debt service for it. Likewise, convention center bond debt, we have been paying that for 18 years now. But that debt service is a city obligation that we are continuing to pay. Our capital expenditures budget, we have two components. Line 28 is the encumbered funds. These are projects that are contractually obligated. That we would not recommend going into because there are legal repercussions if we try to pull contracts. We have, for example, the Edenvale community center there. We've spent most of the money, but to stop construction I think would be disastrous in terms of the builder's efforts as well as the school district which wouldn't be happy with a half-finished community center there. We're not recommending taking any of those out. We did pull some money from contingencies and other things there, but we have only a $51 million capital budget for new projects

this year. Last June when we presented the budget to you, we were proposing a total of $200 million in capital projects. So we're about half. So we've peeled back. And if you look at the lines we have a major emphasis on economic development, line 35, the bulk of the money being spent there. Primarily for things like convention center expansion and autumn street's right-of-way to widen and take some right-of-way to connect the street. Also, our industrial reserves for new businesses coming in. Public facilities, fairly small line item, and then, our strong neighborhoods program we're still proposing another $5 million for funding there. Some of that is for city staff services. But then that program, as all the others start to diminish until year four and year five where we start getting revenues again. And basically, if you look at the budget, we are recommending moving out a lot of the strong top 10 SNI projects to years four, five. And that's basically to help accommodate the budget as we move to other projects. Next slide. This is the second sheet of the source and use. It shows our operating expenditures. That includes our city support services, as well. We are showing -- we're effectively reduced by 23% in our numbers the first two years because of the layoffs that we've had already. We are proposing, on the city side, that the support services be left whole this year because of the difficulty it would have caused immediately for the city. But next year we're proposing a 20% reduction. And in some case, in the capital, it's up to 50. But then in the outyears, where we don't have projects in years 3, we're just showing reduction of all our operating budgets, agency as well as city. Down to about 50%. And of course those numbers may change if the world gets better but we're trying to be prudent in showing you all our expenses and significant reductions in those out years. Our obligated payments, one of the difficulties we have, we have some rather large obligations with the county based on prior agreements. We have shown in this budget a hiatus in the payment of the pass-through agreement to the county for the three years. Obviously we are in the midst of negotiation with the county. We've had one session already. We have what I consider a good meeting with the county, in that we understand that some of their issues out, they're in a position where they want to be helpful, but they obviously don't want to bear the full brunt of this. So this will take some more negotiations and discussions with the county. But we want to continue to work with them. The delegated funds are based on the bond issue. We are again not showing the 20% of the $30 million bond issue this year but we are fully funding the county expenditures for both delegated and pass-through funds in years 4 and beyond. We also have already made a county settlement payment this year, $7.5 million on July 1st as part of the county fairgrounds settlement, and we are showing funding for the Montague expressway in line 50, out in year five, for another issue in North San José related to the county. So that's basically a snapshot. We end the year with a slight fund balance, which is a small cushion. We do roll that over into the next year. Obviously if we have any other obligations, you have a little bit of flexibility. But it will be at the expense of other capital projects in the future. David.

>> David Baum: Okay. I'm going to now cover what was adopted in June versus what we are now proposing in our budget. The tax increment as it turned out came in about 2% lower than we anticipated. And that has reduced in a decrease in the amount of bond proceeds that we can raise. Of course the housing loan is now in the picture, because of the state take. The state raid. The interest income is stable. Other miscellaneous revenue is $51 million. We've taken the largest chunk we've taken out of the miscellaneous revenue is $20 million that we had budgeted for the convention center that was to come through city raising funds for the convention center. We're now deferring that, and there was some grant revenue that has also been reduced. And so we've gone down from the 51 to the 18 million for the miscellaneous revenue. So this is the highlight of the sources of funds change. In terms of capital expenditures, much, as Harry said, has been deferred, and so we're now proposing about half of what we were proposing in June. Operating expenditures, personal services has reduced 18%. That's the agency staff. That's as a result of the September 23rd reduction in force of about a quarter of the staff. Nonpersonal, also, has been reduced as we've liquidated some contracts or not moved forward with certain personal service contracts. And then as an accommodation to the city we left the city support services whole for the current fiscal year. The county payment, we have a number of payments that we make to the county. The first one that the tax collection fees is a statutory payment that we make. The settlement payment was the last in a series of three payments for the fairgrounds settlement of a few years ago which was a total of $22.5 million. The county delegated payment and pass-through that was in the original adopted budget has now been reduced as we negotiate with the county. We did this based on a provision in the settlement agreement from May of 2001 that enabled us to, in the event of a material change in state law to renegotiate the future payments with the county, and so that's what we're invoking here. This could have been invoked in the past because of past ERAF payments, but this one was so significant that it was time to reopen the agreement and start negotiating. And then the AB 1290 pass through has increased by a couple of million. This is what the county would receive in lieu of a negotiated settlement payment, and so we have put this into the budget of about $2 million. So it is quite a significant reduction, and therefore there is this need to sit down and talk to the county, which we are doing. This

is a recap of the payments that have been made since the most recent amended and restated settlement agreement of May 2001 created $272 million payments in those eight years to the county. So it has been a fairly significant partnership that we've had over these years. Agency funded city projects, this here shows how significant the contribution is from the -- at the agency to the city. And that's still a fairly significant contribution for this year and we hope to continue it. The pie charts are basically a restatement of the source and use that Harry has covered. The sources, again, are mostly the tax increment and supplemental assessments. We did enter the year with a beginning fund balance of $125 million and then the new other significant piece is this housing loan and the bond proceeds, of course, 30 million but significantly reduced from the 100 and 200 million that we have been able to sell in the last couple of years. The use of funds, biggest piece of course here is the debt service, based on prior obligations, created to the debt service. The housing set aside funds always off the top. ERAF payment is now a significant piece. So that's -- those are the primary pieces of the use of funds. Then the source of funds, again, for the five-year is tax increment. And bond proceeds some especially in the out years, next two years, we wouldn't be issuing any bonds. Other miscellaneous revenue, 111 million. This, too, is in line, it's actually a little bit lower than what we've been able to receive in the last ten years averaging 20 million. If we continued that, we see well over 100 million over the next five years. So these are the main sources over the next -- through 2015. Use of funds, again, the debt service, similar to the one-year look. ERAF payments, still a big piece. Operating expenditures have come way down as we've reduced this year and in the future years. The housing set aside continues to be a big piece at $263 million and then the county payments, too, would resume in the fourth year. Looking at the financial review, we once again hired spectrum economics, which we first hired in 2005 to do a forecast for us. This is a firm that's -- the chairman is Richard Carlson who is a Harvard educated economist and he's been doing financial forecasting in Silicon Valley for over three decades. And he's been a remarkably strong forecaster for us. His presentation which Harry said is on our Website, for the next six years, indicates, you know, a low down in development, a slow down in lease-ups and rents and there continues to be pretty high vacancy rates. But he does see growth coming through new development of both commercial and residential. Mr. Carlson has been particularly strong, if you look to the first year that he provided a forecast for us. He had projected out through 2009-10 a $201 million. And for 9-10 we're now based on the county assessor's information right on top of what he projected five years ago. So Mr. Carlson, from spectrum economics has been a very accurate forecaster and it's made our budget process much easier. Looking forward, we're looking at increase to $252 million in 2015 and that will be on the basis of several major projects happening over that time period which will be in North San José. The housing units as well as some new construction in our industrial sector, as well as the sales of the many condominium units in the downtown, the 88, the Axis, the 360. Those will add significant new assessed value as those units are sold. Again, the main sources are tax increment, supplemental assessments, bond proceeds, and we've covered those with the previous slides. Look at the top ten taxpayers, this group is actually fairly stable compared to last year. Cisco systems continues to be the largest taxpayer representing 15%. As we like to say if you look back 25 years to where Silicon Valley was and where the project area was, IBM at that time was one-third, fully one-third of our tax increment. So we have become a much more diversified economy in the past 25 years. Blackhawk parent is a subsidiary of Blackstone, a significant developer and owner of Real Estate and other assets throughout the country. Irvine Company, the apartment developers, has produced 2600 units in North San José and has plans for many more. Hitachi is sort of the subsequent company to the storage systems division that was once IBM in Edenvale. Car America is also a major other than of real estate throughout the area. Adobe systems, eBay. There's one new entrant into the top 10 this year, it's Cadence Design, which built a new facility at its campus in Rincon. And that's -- they were number 11, now they're number 9. Novellus was -- moved on down to the lower top 20. Of this group, about six have actually reduced value this year, surprisingly, and still remain in the top 10. If you look at some of the public companies in this list, Cisco and Blackstone, Adobe, eBay, Cadence, these companies are up significantly, and it gives us hope for the future in terms of their reinvestment into the area. Because if you look at the top 20 taxpayers, and to the extent that they're publicly owned companies, they're up over 50% year-to-date since January 1st in terms of their market capitalization. Assessment appeals, this year in the county, is a record number of assessment appeals that the assessor has brought. It is not as high as it has been for the redevelopment areas, Harry mentioned earlier assessment appeals had been as high as $2 billion in terms of properties temporarily reduced. And now they're at about 660 million. But still, that does point to the bottom bullet there, 24% of all properties have been temporarily reduced because of assessment appeals. And so we feel that while maybe there's the full brunt of the appeals has not yet bent felt, that I think we're well on our way. There's season anecdotal information, here hotels like the Fairmont are now valued at $100 thousand per room, where the replacement cost would be three to $400,000 per room. So we feel that the assessor has dropped these values significantly, and still we've had a 2.7% increase. Next slide, tax increment cap has been raised to the 15 billion. Gives us new capability to issue bonds into the future. As revenues enable us. And this cap which was significant development, was completed in the spring. Historically, the tax increment has gone up and gone down. 2002-2003 was basically the level where we are at today. It got to about 200 million. We then had a bit of a dropoff, and we're back to where we were in 2002, 2003. So there hasn't really been a significant increase in the 2002-3 piece was based on a lot of new construction at that time. So we feel like we're pretty well prepared to have a more stable increase in the future years. And finally, the sale of tax allocation bonds, again, 30 million is what we negotiated with our letter of credit provider. In real materials, we could probably do more than this. If we had an unfettered financial situation, because the market would enable it, we think, but 30 million is a very conservative estimate of what we could do. And then after a couple of flat years, we could resume in 12-13. The fiscal obligations, the county agreement payments, delegated payments, these have been fairly significant. And they will continue to be in through 2015. And now I'd like to turn it over to John Weis to go over the goals and investment strategies.

>> John Weis: Thank you, David. What this group of slides is, is to show the top priorities within each of our strategies, for the next five years. And so, beginning with this creation of jobs and expanding businesses under the stimulate economic development goal, the first two are actually the top two priorities that came out of all of our priority-setting sessions over the last few years. And one being, land for acquisition for future development, which is also translated as land for the potential acquisition and work with the -- or ballpark, and the second is the convention center expansion, which really had come out as both the agency's and the city's number one priority for job creation over the next few years. Followed by our commitment to infrastructure improvements in North San José, the autumn street infrastructure plan, is -- this is the first phase of that. And we expect that this work can start as early as next year. And although it's not tied to the ballpark EIR it's a critical element for getting traffic in and out of the downtown from the north part at Coleman. Even though there's not a lot of funding for it, the Edenvale emerging technologies fund and the clean tech jobs fund have enabled us to do incentive programs with a number of young businesses over the past two or three years, many of which are really beginning to expand to become major elements within our environment. Nanosolar, Stion, and a number of others have really succeeded quite well, and so this funds really do help us to help new businesses. In building public facilities, the major item in here is the city improvements, which is the funds that we transferred to the city to enable the city to do increased policing and gang-related items, within the -- all of the neighborhoods, but most specifically in the SNIs. And also, further work in the civic auditorium now that Crosby, Stilll and Nash and Steely Dan have been there, they have greater ideas for further expansion. Within the housing area, the majority obviously is the 25% set aside, $262 million over the next five years, money for North San Pedro housing and Brandenburg for which we received a $24 million grant from the state that is right now on target to the money to be brought in by December or January so that project can finally start. And then the strength in neighborhood and the SNI, the SNI has $48 million, while we have a smaller amount of money for other improvements in neighborhood area. And then within SNI, city support services, this so again over a five-year period, which of the staffs that we have working at the city, the Hoffman Via Monte Neighborhood Center, the Burbank park and the other projects that are mostly open space all in SNI. And then these are the encumbered, this is just a list of the top ranked encumbered and committed projects. The total amount of this again is $49 million but Edenvale community center is $9.9 million, the convention center expansion phase 1 is 6.2, San Pedro urban market is 6. Brocade communications systems is a $4 million commitment. If you have driven up to North First Street lately, almost all of those buildings are now complete, as well as work that we have with the civic auditorium. The convention center expansion has been discussed quite a bit between ourselves, the hotelliers, the city, and others. We have it here as one of our top priorities, because it is a shovel-ready project that matches partial funding from the hotel districts that will create 210 ongoing convention center jobs and 650 construction jobs. And 2, nearly $250 million in economic impact from the construction of the project. This project is a revised project that's been worked out with the hotelliers in the last three to four months, looking at a reduction of the $300 million initial project to something that would be no more than $140 million and would decrease construction time from 30 months to 19 months and it would leverage $70 million contribution from the private sector. The elements of what are in there are a 45,000 square football room and meeting room of 35,000 square feet. And a $30 million for renovation of the existing facility. The key to this is a design-build attribute that was just approved by the state that allows us to move forward in this way and also utilize a significant amount of the design work that's already been done. So with that I'm going to turn it back over to Harry for conclusion.

>> Harry Mavrogenes: Thank you, John. Well, as you see, we have a very difficult task ahead of us. We got to continue to work with our city partners on the level of support we give the city, the borrowing of the housing funds. Obviously with the county we have to also work a negotiation that works for them and us. And this

collaboration is going to be critical to any of our success. We followed the guiding principles and we hope we can move forward with this budget. Mayor.

>> Mayor Reed: Thank you, Harry. I think next on the agenda, the City Manager is going to talk about some of the potential impacts on the General Fund on the city side with these difficult decisions.

>> City Manager Figone: Thank you, Mr. Mayor, members of the council, executive director, Harry Mavrogenes. It is unusual that I would standard before you this morning so I do appreciate the opportunity to reflect and comment on the agency's budget from the city's perspective. I have about ten slides I'm going to take you through after my opening comments. First of all I do want to acknowledge the very good work of the agency over the years to transform our downtown and our neighborhoods. As John highlighted, the progress has just been tremendous. And I also want to acknowledge how both the city and the agency staffs have worked together over the years to produce dozens of projects together which really have made a difference in our community. The agency's indeed facing challenging times. The city knows these challenging times well. Their recent need to lay off 25 employees was no easy task but does reflect the realities of the time. Again, we understand these challenges well. I also believe we have a very good working relationship that will need to grow stronger over the next few years as we work through these times together. And in order to get through these -- this difficult period, I think we should strive to ensure that both agencies are very successful. I think that the mayor and council would expect no less as our community would expect no less of the executive director and myself. One example of how we've already done that is, the staffs literally worked around the clock to ensure that in '09-10, in the '09-10 proposal, that the impacts were mitigated from an ongoing perspective. That was no easy task but it did create the space that we both need to now focus on 10-11 as we work on the city side to bring forward the proposed budget in the spring. That same sort of commitment is ongoing, on the issue of whether or not to borrow from the housing funds. I'm going to talk about that in a minute but you should know that both the city and the agency staff have been actively working on evaluating alternatives for that policy decision. And I would also add the city attorney's office, who I thank for their commitment. None of us want to see the death penalty imposed on the agency, associated with this horrific take by the state. And so the agency and the city teams and the experts that we need really do need to come together to develop alternatives for the council's consideration. So I have three goals in this presentation this morning. First of all, to ensure that you understand we're committed to working with the agency through these challenging times. However, I do feel it's important to highlight the impact of the agency's budget on the city's funds and particular with an emphasis on protecting the General Fund and Harry's actually already commented on some of these. And then also as we move forward to ensure that the council is fully informed of the impacts that face us and that you have the full array of policy decisions that you need to make your final decisions. So on the first slide, the first fund of interest is the General Fund. As has already been mentioned, the heat is somewhat off for the current year. But as we look forward, to the 10-11 development, we will need to develop criteria, and almost a hierarchy of considerations, for how we resolve the, what is now reflected in the agency's proposed budget and of course, everything that we're talking about is subject to change. So we will to align any General Fund staffing reductions to the agency's program and service cuts. As Harry has mentioned in his message, we will continue to work together to mitigate the impact on the General Fund. But we will be faced with some key questions. Which services will be reduced or eliminated, what, if any, impacts on the General Fund will occur in the organization, and, if there are potential further risks to the General Fund, those will need to be monitored and mitigated. You've already been shown the full array of services on the slide that Harry presented to you that are currently funded in -- on the city side by the agency. Harry showed a number of about $17 million. We're showing about 20. The technical staff can describe the difference. That said, there are very important programs and services that we've come to enjoy because of the availability of agency funding. One that I also want to highlight, which Harry mentioned, is the convention center debt service. The current debt service of $15.4 million per year, technically speaking, that is junior debt. And the debt lineup that the agency has and so as we move forward, one of the things that I think about when we think about mitigating losses to the General Fund is this debt, and to insure that the agency can continue to pay for it. The next fund of interest is the parking fund. The agency has been paying $3.4 million per year towards the annual debt service for the fourth and San Fernando garage. There has already been one borrowing of $6.8 million, going back to 2005, which is programmed for repayment, targeted for repayment in 2015. The proposed budget before you also would use, for two and a half years, about $8.3 million from the parking fund with no repayment schedule yet in place. So what is the significance of this? The impacts from the city perspective are few important ones. First of all, we believe that all parking capital development funds would be eliminated, to the tune of $6.9 million. And that there would be no funding in place on the city or the agency side for parking development work, including the HP-

Diridon area which is important as you all know. And then the practice of prefunding or proactively funding for capital maintenance of our garages is now limited. So of these three impacts, it is important to note that there is no real current or foreseeable demand to building additional parking in the downtown. And so there is time, in terms of the major capital development. But the two areas that I think we should continue to think about and work on is the more near-term need of developing parking plans for the areas that Harry's already noted as very important to the downtown, and that is the Diridon area. And then also, the -- not having proactively -- proactive funds availability for capital maintenance for our garages is a concern. Maintenance such as lights, elevator, repairs, the standard repair of decks and so forth, cleaning, those are areas that do need some proactive work. And right now we would have to rely on, as we often do in the General Fund, what is left over in terms of the -- at the end of the year. So that's an area that I think we should be continuing to watch and try to mitigate as we move forward. The last comment on parking would be that I would recommend that we continue to consider the loans, as loans, and look for ways to repay over time. This is not repayment for repayment sake. The repayment should coincide with the need, and as we work again through these challenging times. Both staffs have presented on the downtown parking board on this issue, and we do expect a policy position or recommendation from them to the council. The next fund area of note and importance is the housing fund. Harry's already commented on this, and let me just reinforce from our perspective and begin by saying this is a very complex area. I do think it warrants additional study. We are working through alternatives for the council's consideration and I realize there's not a firm decision in front of you today. But again, I would recommend that you do spend some time on this area before drawing closure on your policy decision. By law, the agency transfers 20% of tax increment to low and moderate income housing fund, and has been noted that's about $40 million a year. How that is programmed currently, from a very high level, is about $30 million is used to pay obligated debt. About $10 million goes for rehabilitation and home buyer programs and programs administration. And then there's an unspent line of credit which provides proceeds that are obligated to pay for legal project commitments. So the proposed budget would borrow $75 million from the housing fund to pay the full state take, the CRAF take. And as Harry has mentioned, we must issue debt in order to make this payment. There then would be a limited ability to finance new construction projects, probably in the next five years or so. And the question would be, depending on the financing approach and instrument that's used, the question would be, how would that affect the other housing programs including rehab. There will be policy considerations as the council does make its decision on this, once we have done further research, negotiations, review of what the lending institutions will offer the city, and so there will be several considerations which will come out of that work. As the staffs have worked on this challenge, internally, we have really tried to look for, as a starting point, win-win sluices. And internally, we've established some guiding principles between the city staff and the agency staff, that we would strive to find a mechanism that would ensure that essential housing services continued. And for right now, for us, that means housing rehab, mobile home rehab and teacher and faculty housing programs. Of course those are our goals at this time to try to find a win-win solution to make several priority needs work. Also, we would work to ensure that the projects with legal commitments remain funded. And we would look for a flex borrowing strategy. Harry already mentioned this. I think this is an important area to note. If the CRA is successful in its lawsuit and halts CRAF, we want to ensure that whatever borrowing strategy might be in place can be changed or terminated in appropriate -- with appropriate means. So it is important that we continue to look for flexibility in order to meet the interests of the need to perhaps borrow as well as keep priority programs moving forward. Also, under housing fund policy issues and considerations, there will be legal requirements of borrowing and Rick will be able to advise you on this. The council will need to make a finding that other funds are not available to pay for the CRAF. Harry already mentioned, funds need to be repaid within five years and of course, the governor needs to sign AB 182 in order for the borrowing to take place. We have had teams on the city side and the agency side actively engaged in reviewing alternatives to provide to the council for borrowing from housing for CRAF. We do intend to return to you with the results of our work, more work is needed because some initial discussions have been challenging. And as I've mentioned, this is a very complex issue around does warrant, I believe, some separate discussion. The last area to point out is just the repayment of deferred obligations to the city. These deferred obligations are in the area of park fees, downtown, high rise, inclusionary fee, and I've already mentioned the existing parking fund loan to the tune of about $19.9 million. I would like to see these stay at the top of the repayment list. However, this is not just repayment for repayment sake. I do believe that as we navigate these challenging times with the agency that repayments that meet the highest need should be considered first. So in closing let me just say that there are many uncertainties in our environment that need to be monitored for their potential impacts on the city. We are committed as I said in the beginning to working with our agency partners to assist both of our agencies, the city and the redevelopment agency, to get through these challenging times. We will be engaged in monitoring with the agency, their finances and their impact on the city, and do look forward to working with all of you as we work through these challenging times. My staff is here to answer any technical questions that you might have. Thank you.

>> Mayor Reed: Thank you. I think we're back to Harry now for any closing comments before we get into council discussion and questions.

>> Harry Mavrogenes: Mayor, I think that was covered well. Thank you, Debra, for your support and your help, and we'll continue to work together. As you can tell, these are difficult issues for both of us. And you know, we'll continue to work together on resolutions. So one thing I should mention, too, in terms of pay back. Some of the things that were in the last slide of course are in our budget for pay back. But we also have to consider away we can work out with the county. Once we have that, obviously, pay back of that as well as some pay back of the -- pay back of the housing fund I think is my highest priority but also making sure that we have capacity to do some pay back with the County also is going to be important. Mayor, that concludes our presentation. We're ready for any questions you all may have now.

>> Mayor Reed: Thank you, I have a couple of questions. I'd like to have a little bit more discussion about the overall strategy, economic development strategy that's reflected in your recommendations. We do have a guiding principle to invest in projects and programs that will leverage third party investment, stimulate the economy, generate jobs and General Fund revenues. And quite a bit of the funding that you're recommending is directed towards those kinds of efforts. I was just looking at the list of companies that I can remember over the last couple of years. And which the agency has some kind of an vest. You mentioned some of them in the presentation. There may be others that I -- that I missed. So brocade, do you have the $4 million obligation you mentioned, brocade's going to generate about 2300 jobs on that site, several hundred million dollars' worth of investment. Nanosolar, Solo Power, Stion, Solar Junction, SVTC, Shocking Technologies, solar companies, Borgata recycling, and Ultratech. All those combined with Brocade's about -- excess of 3,000 jobs, and I think the agency's funding is about $8.5 million for those companies which in turn will generate probably about $500 million of investment, which will generate over $5 million in tax increment. And we don't have a lot of money in this budget for those kinds of investments, a million -- I think they were two million -- two, 1 million categories. Do you think that will be adequate amount to have available for making these kinds of investments in clean technology companies in particular which has been one of our priorities?

>> John Weis: Mr. Mayor, it's always nice to have more. But based on the discussions that we've been having with the various companies, we have a tool that we didn't have two years ago, or hadn't exercised much two years ago, and that is an expanded enterprise zone. So increasingly the enterprise zone, together with our funds that we now use almost exclusively for payment after the equipment has been acquired seemed to be a pretty good package. In each case, as well, we meet with the property owner and try to negotiate the best possible lease rate with them. So although we would certainly like to have what we've had in the past, which is about $2.5 million a year, we've already begun a different approach using more tools, and we're hopeful that we'd be successful.

>> Mayor Reed: I'm also interested in what impact the proposed budget might have on our economic development staff, on the city side as well as the agency side. Because in addition to the companies where we've made a financial investment there are also many companies that have located in San José because of the efforts of our OED staff and our RDA staff working together to work at the speed of business and get them into existing buildings. So Toshiba with 600 employees, Ericsson with 1200 employees, no agency money went into those projects, but they wouldn't have happened if we didn't have the staff to do the work, and RDA staff and city working together. So could you talk a little bit about the impact of the economic development staffing in the aggregate?

>> Harry Mavrogenes: Well, again, our staffing impacts, we've already had a reduction. But on the city side it's really what we have working with Debra suggesting that we have a number, a goal of 20% reduction overall, in that large city support item that you saw. How that gets distributed really is up to the city administration. Obviously the collaboration here has been great in creating these jobs. But there may be some impacts and some restriction depending on how far we have to go into the reductions of staffing. But that's really up to the city administration side as to where some of those cuts will occur.

>> Mayor Reed: I'd like to ask about baseball, get quite a bit of money in there for land acquisition that could be used for a baseball stadium site. I think maybe I've forgotten the numbers of the economic impact analysis report that was done a month or so ago. Could you just tell us what those numbers were? Because if I remember there was in excess of $5 million of revenues for local governments. The agency, the city, the county, school districts, the VTA.

>> John Weis: I will look to staff to correct me on this but if I remember it was $1.5 million a year to the General Fund and then between four and $5 million to all the taxing agents which include the agency, the housing department, the county and the various school districts on a yearly basis. Based on the estimate of a -- that our additional funds right now which we have as $35 million would then generate $500 million or a half a billion dollar investment from the private sector which is perhaps one of our best leveraged investments that we've made. And then would create close to a thousand full time jobs and a number of part time construction jobs.

>> Mayor Reed: And is there adequate funding proposed across these years to complete the land acquisition?

>> John Weis: We believe so, to both complete the land acquisition and, after the property is acquired, there is a significant amount of site preparation work. Because part of roughly about three quarters of an acre is city streets that will need to be -- what do you call it -- dead-ended and vacated. And there's a lot of utilities in those streets. And those utilities need to be -- so that's a relatively expensive item but those items can be covered with the amount of money we have in the budget.

>> Mayor Reed: Also on the economic development theme here, pipeline projects. One of the issues when we're looking at projections of a tax increment growth in future years or just remaining flat, since flat is the new up, is what's in the pipeline. And there's a difference between the pipeline for the city on property taxes, and the pipeline for the redevelopment agency on tax increment. And I can count up right now, probably a billion dollars worth of projects that are not yet on the tax increment rolls, like the Brocade project that's under construction, the At First, the rest of the At First project which is under construction, and others. And again, that's the results of the efforts of our economic development staff and the funding that the agency has put in. The major projects in the pipeline that aren't yet on the tax rolls --

>> John Weis: You would add to that Equinix..

>> Mayor Reed: Equinix.

>> John Weis: Equinix. And then --

>> Mayor Reed: I just went to the grand opening of the first gold LEED-certified data center in the country, Fortune Data Center, $50 million, and that was their phase 1. They're going to have other phases. So Equinix is at least $100 million of investment that they're working on. But Solo Power, as I understand it, Solo Power has been notified they're going to have a Department of Energy loan guarantee, and they're pursuing a project in Edenvale which could be a couple hundred million dollars of private sector investment.

>> John Weis: Many of those companies that you went through, the eight or nine companies, we have been in discussion with on expansion. And some have been frustrated by a lack of credit within the marketplace, but others have come through. And so we continue to work hard on that, and we do expect that a number of these emerging technology industries will be expanding much faster than we expected. Some will be expanding within existing structures, but others will be expanding into new structures that don't need to have built.

>> Mayor Reed: I had a question on housing, which is obviously a big topic for this budget in relationship to the state take. How much of the housing program of all of the housing programs that we have, agency and city combined, is funded by that tax increment flow, and what else do we have in the housing programs that are funded out of -- I know there's CDBG, I don't know if there's Healthy Neighborhood Venture Fund, I know there's other sources of fundings. And so when we talk about the housing program, it's much bigger than just building affordable housing projects. So I guess the first question is how much of your staffing is focused on new construction, new developments, negotiating the deals, and doing all that financial work?

>> Leslye Krutko: Thank you, mayor, Leslye Krutko, director of housing. And trying to answer your question, as far as how much of our staff resources are devoted to that, we have about 6 out of 80 of our staff that work on that program. As far as other sources of funds that we get, we have funds from a whole variety of different state and federal programs. But clearly, our biggest source is the increment and the ability to borrow funds from that increment. So to get you specifics I can come back to that because we do have funds that come from a variety of different sources for our programs.

>> Mayor Reed: Okay, thank you. And then I had another factoid, we had invested about 750 million in affordable housing, but on the slides, the was $500 million and --

>> John Weis: Probably around 6. The number on the slide was from 1988, and of course, it was from the period of time we transferred the program to the housing department. So but for about 10 years before that we also had investments in affordable housing. So the total is probably around 600 million from the time that we started the program.

>> Mayor Reed: I had a question on the parking fund. The first question is, why is the agency paying for parking garages instead of the parking fund in the first place?

>> Abi Magamfar: Mr. Mayor, members of the board, Abi Magamfar. When the 4th and San Fernando garage was planned, the bond was issued by the city's parking authority. However, it was guaranteed by the redevelopment agency as a back stop. This enabled to get a better rating on the bond. But the primary source of funding for the bond are the city's parking system.

>> Mayor Reed: But why did we structure it so that the agency is putting the money into parking, when the parking fund has money and resources that are coming in?

>> Abi Magamfar: The anticipation was that the garage is not going to make money in the early years and therefore, the agency would replenish and make those bond payments. Looking into the future, there was supposed to be at some point that the garage will be self-sufficient to pay for its own bond. However, based on the programs that have been in place and continue to be in place, the garage is not making money to pay any portion of the bond payment.

>> Mayor Reed: Jim Ortbal, do you have an addition to that? Are there other parking garages that the agency is paying for besides the fourth street?

>> Abi Magamfar: This is the only parking garage, Mr. Mayor. There are no other bonds on any of the other city parking garages.

>> Mayor Reed: Well, you're paying for the parking garage under the convention center, I presume, as part of the convention center debt service.

>> Abi Magamfar: That is correct, that's as a part of the entire convention center bond payment, which the parking garage was part of it.

>> Mayor Reed: Where do those parking revenues go?

>> Abi Magamfar: The revenues from the parking facilities in the parking system goes to the parking fund, for a specific -- for the convention center garage, those revenues are returned back to the General Fund, which in part pays for the convention center operation. For the fourth and San Fernando garage, there is a separate agreement between the city and agency which identifies any net revenues generated from the fourth and San Fernando garage to come back to the agency to pay for the debt service. However, as I mentioned earlier, those revenues have been marginal in some years they have been negative and haven't been significant to make a dent in the bond payment.

>> Mayor Reed: And as long as Jim Ortbal is here, what about the sale of the Third Street Garage?

>> Mr. Mayor, just a quick addition to Abi's comments. On the convention center garage, those funds go into the convention center fund, so it's part of Team San José's revenue and net overall operation. In terms of the sale of third street garage, we have been in negotiations with legacy partners, over the intervening months over the summer and into the fall. We are about to conclude those, and I expect to be back to the council in closed session in early December to give you a report on the result of that.

>> Mayor Reed: Okay. Shifting to miscellaneous issues, can you talk a little bit about what's in the miscellaneous income categories and how uncertain we might be about that? I know we've averaged $20 million in miscellaneous for a long time, but the average of zero and 40 is still 20 and whether we get zero or 40 next year is kind of importantly. Could you talk about the sources of miscellaneous income?

>> David Baum: Mr. Mayor, David Baum. In our miscellaneous revenues we have over five dozen sources of revenue, the biggest of which would be the second sale of a parcel at a preestablished price with Adobe expected to be closed in the first half of 2010. That would be for $6 million. We have refunds for projects that were done with the city where they came underbudget. We have about a million-two of those coming back to us. We have an EPA grant for the North San Pedro housing project that will be used to fund our capital commitments for the North San Pedro project of $400,000. We have second and St. James street parking for a little over $100,000. We have porter stock insurance proceeds. The unfortunate fire at the porter stock building. We now expect or we have a million and a half sitting in an escrow account. We've asked for that back. Not waiting for a new project design to come forward. The first church of Christ scientist we've had $1.3 million there that we received. An autumn street federal grant of $1 million that we expect. A state grant of $2.9 million for the North San Pedro project with which we're expecting this fiscal year. So those are the main points for this year, and there are a number of other sources like that in the coming years. I'd also like to mention that because we have done a lot of land banking over the years and we have a fairly sizable portfolio of assets, that we could sell down some of those assets if need be to meet cash needs going into the future. An example of that would be a one sixth interest that the agency has in the Fairmont hotel which I few years ago we valued at approximately $20 million or the parking garage at the Fairmont hotel. These are assets that could be liquidated at some future point that are not in our five-year forecast.

>> Mayor Reed: Another big issue is J.P. Morgan and the letter of credit. That's an interesting one, because it's related to some long term debt obligations. And this letter of credit was created as part of a 30-year plan if I gotted right. I think I heard you say that J.P. Morgan thinks it's okay for us to issue up to $30 million in bonds this year.

>> David Baum: That's correct.

>> Mayor Reed: How long have we been in this relationship with J.P. Morgan, and how many times have they extended the letter of credit over the last I don't know however long it's been?

>> David Baum: It's been a long time, Mr. Mayor. The J.P. Morgan relationship goes back, in my memory, to 1986, when they provided a letter of credit for the initial construction of the convention center. But to specifically answer your question, regarding the current rate program we have with them, that program was started in 1996, at a time when the agency was just coming out of a bit of a recession, when we had a drop in tax increment. Just the year before, it was at -- the program was extended in 2003, again, just after we were coming or at the tail end of a recession, in which we had a couple of years of down revenues. So in the past, we not only got increases, but we also got extensions, two extensions of three to five years on the letter of credit facility. Because of the global financial crisis, we've just seen a shrinking of credit. We've had other banks interested in providing us credit over the years and J.P. Morgan because they were already with us and had this long standing relationship where they were good to us and we were good to them continued this letter of credit albeit at a slightly diminished amount as we had 105 million and now we're going to pay down 5 million so we'll have 100 million going forward. That 100 million will be expiring in November 26th, 2010. But we would fully expect that that program would continue, as our bonds don't mature until 2033. And J.P. Morgan has been an underwriter of these bonds as well as a credit provider. So we think there is a package there that we hope will continue into the future.

>> Mayor Reed: What kind of interest rate were we able to gain using this letter of credit with these long-term bonds?

>> David Baum: J.P. Morgan is the leading -- probably the leading credit provider in the country, and so the interest rates have been well below the industry standards. The recent rates have been, for the tax exempt portion, about .15%. For the taxable piece that we have, about 45 million has been about .25 to .3%. In comparison, our fixed-rate bonds have an average rate of 5.5%. So this has been a terrific program and saved us 2 to $3 million a year on this piece and we would hope to continue it into the future. But, and J.P. Morgan knows that and that's one of the reasons they've been a little bit more difficult for us to negotiate. They can get a higher fee because our rates have been so low but it's still been a win win situation for us and them.

>> Mayor Reed: What are the prospects of refinancing the underlying obligations with J.P. Morgan and restructuring that whole deal, is that something you've looked at or is that something we want to get out of if J. P. Morgan wants to get out of the whole deal?

>> David Baum: We first got a proposal from J.P. Morgan to do a long term fixed-rate financing, but given the limited capacity that we have right now where we're doing maybe 30 million of fixed-rate bonds, we just didn't have the capacity to fully fix out as they say the variable rate portion. And so we're going to do this you know gradually. The 5 million was the first piece. If we can continue it in the future, we would like to pay it out in the preexisting amortization schedule. But with the $30 million that we can do this year, we expect there to be additional capacity perhaps to do a piece later. It's not clear. But the bond rate is improving, long term rates are coming down from where they were a year ago when we last sold bonds so we're optimistic that we will be able to continue to pay down that J.P. Morgan letter of credit.

>> Mayor Reed: What was the preexisting amortization schedule?

>> That's the amortization schedule that has us paying a million to 2 million in principal per year through 2033.

>> Mayor Reed: Those payments are included in the first line of debt payment, senior debt payment or whatever that category is, I don't have the chart in front of me.

>> David Baum: Yes, they are, Mr. Mayor. That is the 143 million this year, and extending out into the future years. That includes the variable rate demand fund debt service.

>> Mayor Reed: A couple more questions, back to the housing one, one I forgot to ask. One of the biggest sores of emotional funding for something might be the park line trust fund that has got tens of millions of dollars in it. I just want to make sure that the staff is looking at, as we look at how do we fund the state take, that's a place to take because there's money there that might be something we could borrow against. And then a question for the City Attorney about subordination. With regard to the county, as I understand it, our agreement with the county has a provision in there that allows us to renegotiate if things go bad, which they have. But it also has a provision in there regarding subordination of our obligations to the county that subordinate payments to them to other things. And you can talk about that.

>> City Attorney Doyle: Yes, the agreement with the county which was amended in 2001 as part of the SNI discussions, there are two payments to the county, one is the pass-through agreement payment which goes back to the 1980s. And then there's the delegated amount which is a percentage of bond proceeds. There are two provisions, as you indicated. One is a subordination provision which makes the county payment junior to other debt. It is the exact plan which is existing in future agency loans, bonds and other indebtedness. The issue with the county in terms of the subordination is that if the city -- or if the agency cannot make the payment, that the amount accrues at 10% interest per annum. But there is also a separate provision that contemplates a material change, I think the finance director indicated this provision which contemplates that if there's a material change in state legislation which we have, that the parties can agree to reopen or renegotiate the agreement. Doesn't require a renegotiation, reach an agreement but it at least requires the parties to sit and meet and at least attempt to work things out which is what is being attempted at this point.

>> Mayor Reed: Thank you. That's my short list of questions at this point. Turn it over to other council -- questions or discussions, other councilmembers have questions or comments? Councilmember Liccardo.

>> Councilmember Liccardo: Thank you, mayor. Rick, I have just seen the opinion that came from Patty Degnan, I think on Friday, if I'm not mistaken. Do we -- does that resolve -- let me, if I could draw your attention -- I don't know if you have a copy of the memo I put out, page 2.

>> City Attorney Doyle: I do.

>> Councilmember Liccardo: Okay. I'm concerned about the 35 million that we've got in the budget in a loan from the housing fund, which is clearly in excess of the roughly $13 million in state take that year. Does the passage of SB 68 resolve that question or do we still need AB 182 to pass?

>> City Attorney Doyle: I'm told that SB 68, AB 182 morphed into SB 68. So what SB 68 allows you to do is not just use housing tax increment but allows you to use any funds that the housing department has which would be bond funds as well.

>> Councilmember Liccardo: Okay, so --

>> City Attorney Doyle: But it doesn't resolve the issue of in year 2 whether you can borrow more than the $13 million payment.

>> Councilmember Liccardo: Okay, so that issue is still either pending resolution by the state legislature or by our city attorney's office?

>> City Attorney Doyle: Well, it's -- the city attorney's office isn't going to make the final decision on this one.

>> Councilmember Liccardo: Understand.

>> City Attorney Doyle: It's an issue that we've raise and I would say that it's fair that in future legislation or possibly a court.

>> Mayor Reed: Leslye got a --

>> Leslye Krutko: I just wanted to clarify that AB 182 is on the governor's desk, it has not yet been signed.

>> Councilmember Liccardo: Thank you, Leslye.

>> Mayor Reed: Roxann Miller, is that correct, on the governor's desk? Roxann goes in and checks the governor's every morning when she first gets to the capitol, so she always knows what's on there.

>> Roxann Miller: There were two bills, basically initially covering the same topic that you are now discussing. 182 was the first bill. That bill did not proceed to the second house and was not voted on. The second bill, which we hope will be of assistance to us, that is SB 68, and that is on the governor's desk. And I have been talking with the speaker's office and other legislators, that to the extent that SB 68, as indicated, may assist us this year but there's a question about the second year. I think we will have an opportunity to continue those discussions when the legislature returns in January. That will? Again, be part of a miserable, otherwise, state budget discussion. But we are definitely going to be there, to see what we can do to continue to provide ourselves some flexibility.

>> Councilmember Liccardo: Thanks, Leslye, good luck. Then looking at line 6, on the sores and uses fund summary, I know we've got an asterisk there in the budget. With the $35 million. The concern I have is if we're limited under state law to borrowing say 12.8 and we're short 22 million and change, which clearly exceeds the amount of capital reserves we have for year 2, is there sort of a backup plan for how we're going to find that money?

>> Harry Mavrogenes: Well, just couple ways to look at it. One is, obviously we're going to look at other sources to borrow. We have talked in the past about looking at the convention center debt as well. We may have to look deeper into city services. They're not easy choices. The other option is to curtail certain capital projects. Those

are the three basic choices you have. I mean, they're all doable. They all inflict pain. But those are the policy options you all have to choose from.

>> Councilmember Liccardo: And Harry, by convention center debt, you're referring to actually shifting that to the General Fund, is that right?

>> Harry Mavrogenes: That's a possible scenario that you might want to look at. It does have impacts to the General Fund. The city support services has impacts to the General Fund, as well, and capital program has impacts on other projects.

>> Councilmember Liccardo: Understood. And that would be the $15 million payment that would be expected in year 2, what you're referring to when you say convention center debt?

>> Harry Mavrogenes: We've already made a payment this year for the most part, I think 11 or 12 of that's made.

>> Councilmember Liccardo: Okay. With regard to the $75 million borrowing from the housing fund, my understanding is, the city does undertake some cost in going out to capital markets itself for that financing. Is that cost borne by the housing department or by redevelopment?

>> Harry Mavrogenes: That's something that we need to look at, councilmember of how -- what the costs are and how to fairly assess those. If we do a borrowing I would expect that we would be doing it in a way that minimizes the impact on the housing fund.

>> Councilmember Liccardo: Okay. By the way I wanted to say thank you both to David Baum and to Harry for your willingness to take time with me in the last week to sit down and address several of the concerns I've raised. Some of which have been raised in this memo that I've distributed to my colleagues. And I understand we're not going to get to all of these questions today, but I appreciate your willingness to engage with me on them. I know these are very difficult times. There are no simple answers, just hoping that we can all go into this next year with a lot of clarity about what risks we are taking, what risks we aren't taking, and ensure that we're making decisions with our eyes open. With regard to the letters of credit on the $100 million obligation, we know we need to renegotiate next year with J. P. Morgan. They required a pay down this year. It seems reasonable to expect they may require a pay down in next year. Is it my understanding that if there is any pay down requirement that is going to come out of ending fund reserves?

>> Harry Mavrogenes: That's a potential scenario. The risk in putting a dollar amount there is, you're just sort of asking for them to take it.

>> Councilmember Liccardo: No, I understand that.

>> Harry Mavrogenes: With the hopes they won't. In the past they haven't. This year was a difficult year, and they did take $5 million as a pay -- well, it helps us, really, it pays down the principal. But to the extent that will be required, it will impact the capital projects, probably in an out year.

>> Councilmember Liccardo: And if that paydown is in excess of the $15 million that we have in our ending fund reserve, we are going to need to cut other capital projects; is that right?

>> Harry Mavrogenes: That's very likely, and that's something we can look at in the second year. I think the one thing you may want to look at, again, I said earlier, J.P. Morgan is junior debt. They are comfortable with us issuing 30 million more in senior debt ahead of them. That tells you something. If J.P. Morgan has got that comfort level, I think we're in pretty good shape.

>> Councilmember Liccardo: Well, what I'm concerned about is, as we look at the last year financing, J.P. Morgan quadrupled the financing cost on one of the letters of credit from 45 basis points to 210. They constrained the amount of time in which they would give us, essentially they shortened the lease to a single year on the extension, and they required a paydown. So I understand it's nothing that the agency's doing that's wrong here

but the reality is we've got capital markets that don't seem that receptive to municipality debt. So my concern is we go -- municipal debt. My concern is if we go forward and capital markets don't change substantially, we are going to continue to have challenges. Do we have reason to believe that 2010 is going to be measurably better than 2009?

>> David Baum: Well, Councilmember, it's difficult to tell. It's been a difficult year, as we've discussed, with the national recession and the global financial crisis. But it is true that J.P. Morgan just profited at the rate of $3.4 billion in the most recent quarter. And we feel that things are getting better, I mean, a year ago we had Lehman brothers going out of business, and we had the biggest banking reduction with Washington Mutual and other banks, we had over 100 banks that have been taken over this year and so we think that things are getting better. J.P. Morgan has stabilized and we expect other banks to come forward again that have previously offered credit to us, which recently they haven't. But it's -- the circumstances have been better in the past and we would expect them to get better as the current economy is starting to recover.

>> Councilmember Liccardo: Thanks, David. Turning to the -- I guess the miscellaneous other category that the mayor made reference to, I think it's line 9 on the budget, on these sources and uses charts, as I understand it, in the first three years, we've got, that's line 9, 18 million, 38 million and 25 million that we're relying on in order to balance the budget to the point where year 3 we'll be close to zero in ending fund reserve. And I know that other miscellaneous consists of a lot of other sources. But as I understand it a majority of those sources are in fact land sales that we're relying on, is that fair to say?

>> David Baum: Yes, that's true. There's significant land sales. There's also significant grant money. We have approximately -- well, we -- we have state grant on the Brandenberg of more than $10 million in the next year. But the most significant items do tend to be the land sales that are at pre-established prices based on development agreements that we currently have in place.

>> Councilmember Liccardo: It is fair to say, I understand that Adobe is going to go forward, which is $6 million which is wonderful and we know Adobe is good for it. The challenge as we look at some of those DEAs my understanding is, correct me if I'm wrong on this, the time of the sale is not fixed. In other words those are often option contracts for them to take the land. If they don't have the financing say in a bad financial market then the transaction doesn't happen, is that fair to say?

>> David Baum: That would be true, if they don't have the financing available to them then they wouldn't be able to proceed, that's true.

>> Councilmember Liccardo: So I guess my concern is that we have such an enormous variable there with regard to land sales, again, through nobody's fault, I understand we've been expecting those sales to go through, but we simply don't know if those sales are going to occur.

>> Harry Mavrogenes: We have very good reason to believe those will occur based on preexisting agreements as David said, in most cases and the projects moving forward. Again, the ones in year 1 I think are 99.9% sure. The $18 million. As we go out every year in that budget gets a little fuzzier. A lot of things may happen, a lot of other things may not happen. I've never seen the fifth year of a five year budget look the same when it becomes year one. So we give you our best estimates now, and the best thing I would say about the agency unlike the city where you have to provide certain services 24-7 regardless we can adjust our capital budget, we can adjust our operating budget to accommodate the ups and downs. But the real focus today is getting us through year one and to some extent year 2. We'll be back in June for year 2. But I think the immediate stuff is pretty solid.

>> Councilmember Liccardo: Thanks, Harry. Now, turning the spectrum on projections for tax increment, David, I was hoping we could go back to the slide where you showed historic tax increment the bar chart stretching back approximately ten years, thanks John. Sorry to -- I guess here's where I'm going with it.

>> David Baum: Slide 33?

>> Councilmember Liccardo: As we look at the last recession, we know that tax increment's a lag being indicator so you tend to see the results a year or two later. When you look at the bar chart, from roughly '02-'03, which would have been the start of when RDA was stealing it from the last recession, until roughtly '04-'05, you see a pretty precipitous dip, about 25%, if I'm not mistaken, in tax increment. The projections that Spectrum is giving us is that we'll have essentially a flat chart. I'm sorry, I didn't want to send everyone into a tizzy over trying to -- oh, is it on? Okay, great, it's not up there? We have it in front of us, great. So when you go back to the bar chart --

>> David Baum: Oh, the bar chart. 39?

>> Councilmember Liccardo: It was the one that was just shown right before that, it was shown a second ago. That's it, great. So when we look at sort of the peak in '02-'03, down to the trough in roughly '04-'05, '05-'06, we saw about a 25% drop in tax increment. Spectrum, the RDA consultant, is telling us that now in I think what we recognize to be the worst recession in the last three-quarters of a century, tax increment is going to be flat rather than dropping. Is there a way we can explain the apparent disparity here?

>> John Weis: Councilmember, we lost 250,000 jobs in Silicon Valley during that period, well, it started in '02-'03 and been to '04-'05. That was 10% of all the jobs lost in the United States. So the recession here was so much more difficult. We were moving from an unemployment rate of about 1%. We were also moving at an occupancy rate in our industrial property of around 1% or less. There wasn't a developer in the valley who didn't think they could make a better killing by moving from housing to industrial or office at that time. We were -- we were rezoning property all over the place because the market was so high. So we had this enormous bubble, and we had so far to fall, because we were so high up. And so the tax increment that we received in '02 and '03 was abnormally high because of that pent-up demand that was sitting there. It should have been, instead of 190, it should have been about 140, if it was reflective of a normal economy. But it wasn't, it was an abnormal economy. And so when we came back down, it was a severe reduction. That period of time was a complete aberration in terms of what the valley was all about. In many respects, I would say something might be similar to what the housing market was in the last three or four years. But that's not our total tax increment. It's a small part of it. So I feel pretty comfortable with the numbers that they've come up with because of an understanding where we we were in the past.

>> David Baum: If I could just add to that, that some real estate economists will point to a direct correlation between the -- in Silicon Valley between the NASDAQ stock market and the price of Real Estate. And what John just mentioned really rings true in that regard, that the NASDAQ hit a peak in 2000, 2001, at 5,000 and it's fallen since then to around 2,000. So it's had a very nice come back this year. So if you believe in that correlation between the NASDAQ stock market and the companies that are represented in our project area you could theorize that we're going to start to grow from here and it's not going to dip from here, it's going to go back up.

>> Councilmember Liccardo: But I guess I'm challenged a little bit by linking property values which is I guess really the basis of all this increment too closely to the NASDAQ. Which I understand we're seeing some rebound in the market and we all hope that is sustainable and continues. I know there are lots of debates about whether or not it will be. But when we look at office square footage, vacancy rates there, throughout the valley, we've gone from 8 million to 14 and a half million in vacancy. Even spectrum, in their report, concedes that the market is still sinking in office and commercial, although residential certainly appears to have bottomed out, and we've probably gotten some stability in the residential market, they're still falling in office and in industrial. And so -- and that's what I'm hearing anecdotally as well. So I guess I'm challenged because it seems to me that we haven't seen the bottom yet in that market. And yet we're assuming that all is going to be well, essentially for the next two or three years, without significant drops there.

>> Harry Mavrogenes: Excuse me, that's not correct. Because as I mentioned earlier that number is a combination of things. This year we had drops. We had valuation drops with the Fairmont, with other hotels downtown, other property. Even with those drops, the new development that had occurred, such as the condos that were partially finished and some of the development in North San José, made up for it and we were up 2.68%. Now, you know, I'm not the economist. We hired somebody who's had a good track record. He believes that the balance will be somewhere at zero between some reductions and some new development added in. You know, it's hard to refute for me after reading the numbers, but I'm not the expert. He is. And again if we're wrong,

we make adjustments. If the increment is down 3%, that's 6 million off the top. You slice $6 million off your capital budget.

>> Councilmember Liccardo: Thanks, Harry. And I appreciate what you're saying about the need to make adjustments. I guess as I'm looking at this going forward, is there some value in us preparing for those adjustments, being nimble enough to be able to make them rather than engaging in encumbered projects so that essentially we're stuck? I raise that just as an issue. I know it's not a simple question to answer but I think it's something we'll need to address going forward in the next few weeks which is to what extent do we want to chain ourselves to a particular course which is going to leave us unable to be able to make sudden changes if we need to if, for instance, what we learn, for instance, from the state legislature is, you know, in year 2 we can't borrow the full 35 million, et cetera?

>> Harry Mavrogenes: Well, there's a real danger in doing that. I read over your memo preliminarily, and I think the biggest concern I have is our seven and 8% growth in the out years were based on economic growth continuing. And if you stop things for essentially from what I can tell a year and a half, if you stop the SNI program, if you stop the convention center, if you stop other projects we're not going to get to the 7 and 8% in those out years. We're going to be flat out there too. The big assumption that spectrum has made is that we keep going on things, that we keep inducing development, that we keep encouraging new projects. So I think the worst thing we could do right now is stop. Certainly approving a budget like this is not the final step. We'll bring these projects in to you. And certainly my biggest concern is that $30 million bond issue which is coming soon. We intend to bring that to you hopefully by January. I don't want to spend a lot of money before we have that either. So I think that's a legitimate concern. But as to the others, we could wait around for a year and lose not only the economic growth but we'd also lose the wonderful bids we could get in the meantime. We could build the projects for almost half of what we could do before the recession. There's a risk in doing that too. We'll respond to you in detail but I really have strong concerns.

>> Councilmember Liccardo: Thanks, Harry. With regard to the payments to the county, just became aware with the presentation, I appreciate that the amount of delegated payment that we're foregoing is actually 19.8 million, that's not just the $6 million on the $30 million bond issue, but in fact there's some amount of delegated payment, I'm assuming from previous bond issues, that we're not paying in this year to the county, am I mistaken? I'm just trying to figure out where that 19.8 million came about.

>> David Baum: We'll 100% up to date on our delegated payments. In other words the bond issue we did in November and December of last year produced approximately $16.8 million of delegated payment and that was made to the county.

>> City Attorney Doyle: Councilmember, if I'm not mistaken, I think the assumption was, we were going to issue $99 million in bonds, and the county would have gotten 20% of that. That's probably the $19.8 million. Instead it's contemplated to be a $30 million issue and not make any payments, which would otherwise would be 6.

>> Councilmember Liccardo: Okay, 6 million, right, I'm just trying to figure out where that 19.8 came from, thank you, Rick. So then with the 6 million delegated payment that we would be forgoing plus roughly 21, 22, million a year in pass-through payments, it's about 22 million over the next three years that we would not be paying the county. My understanding is there's a 10% interest rate that kicks in automatically, is that correct? 10% interest rate. Is that interest payment reflected anywhere in the budget?

>> Harry Mavrogenes: It is not because we are anticipating as the attorney said, renegotiating, hopefully avoiding that.

>> Councilmember Liccardo: I also know that there are a lot of very important objectives that we're trying to accomplish with the redevelopment money, relating to convention center, housing, et cetera. I certainly hope that we're open to creative alternatives, about how we're going to finance convention center expansion, alternatives to the full amount of housing borrowing that we're doing. I know that people are working hard, and I hope there are some more creative ideas that we can do it. As you can tell by my questions, I'm very concerned about the extraordinary constraints we've got on this budget and the assumptions we've made on this budget. Knowing to some extent we have to make those assumptions in order to make those numbers work. What I'm concerned

about is getting down the road five to six months and scrambling. And so I'm hopeful that as we go forward in the next few weeks we can think about some alternatives that will give us some more room to maneuver if the market doesn't turn perhaps like we'd like. Thanks.

>> Mayor Reed: I'd like to take the public testimony. Get the few people that want to speak and we'll do that now. Please come on down, close to the microphone we'll start with former mayor Susan Hammer and Eric Larson and John Guthrie.

>> Thank you, Mayor Reed and members of the council. I am here on behalf of ace charter school to thank all of you and especially Councilwoman Campos for the way you have responded to our need for a little help, and the service confidence that you have shown in the ability to leverage the million dollars that is in your temporary, should we say it's not your final budget, we understand. But we're very pleased by that. And not only in thanking you, but I just want you to know that we have a very simple, very simple mission, and that is, to teach our eighth graders to read at grade level, at least at grade level, and do math at grade level before they go on to high school. That may sound simple, but I think all of you are well aware that it's a huge, huge challenge. And we intend to be in Alum Rock school district for the long haul and we also intend to get these kids when they leave 8th grade so that they can be successful in high school and go on to college and be contributing members of our community. So we thank you for the confidence that you have shown in us up to now and I stand ready to take any and all of you on a tour of our school and show you what we're all about, at your leisure. So let us hear from you, and again, I thank you very much.

>> Mayor Reed: Eric Larson. Then John Guthrie and Greg Lipman.

>> Good morning, my name is Eric Larson. I'm the AFSCME representative on the board of Team San José and I'd like to speak on behalf of the expansion of the convention center. In June 2009 the hotel community overwhelmingly demonstrated their commitment to the convention center expansion and renovation project through their approval of a special tax to fund the project. The vote was made on the -- based on the commitment that the RDA would match the hotel funding to fully fund the project. You know, the convention center expansion is a shovel-ready project that would immediately infuse jobs and increase taxes for city services. This is a unique opportunity to support a public-private partnership and would leverage private funding that takes the burden of ongoing maintenance off the city, and the redevelopment agency. Moving this project forward, it will also take advantage of the construction industry climate to yield the most bang for the buck in terms of our dollars. The project supports our local economy, increases the competitive edge to San José as a destination, and will help San José attract more events and visitors to our community. The project will also add 650 construction jobs and over 200 ongoing jobs to the local economy. This will add over 50,000 new hotel room nights annually as a result of the convention center business center. And also add needed visitors and visitor spending into our local economy. I urge you to continue to support the convention center and I ask you to think creatively about ways to bring the funding gap and move the convention center project forward. Thank you very much.

>> Mayor Reed: John Guthrie, Greg lipman and then Bob Brownstein.

>> Thank you, Mr. Mayor, members of the council. For those of you who don't know me my name is John Guthrie. I'm the finance director of the county of Santa Clara and I had previously the pleasure of serving as your finance director from the year 2000. Also, I had the opportunity to celebrate my 30th year as a finance director for a major city and county in the Bay Area. What Mr. Doyle told you is correct. That we realize that our receivable from you on the pass-through agreement is a low priority, in the list of priorities that you have in terms of your encumbrances on your debt. But I will also tell you one other thing. It is a liability. It is an amount of money you owe us, whether we're first in line or last in line we are in line to receive money. Up until four weeks ago Mr. Baum had indicated to me that they would be paying us $21 million that was owed last June, as soon as the audit was completed and then four weeks ago we had a meeting with agency staff and we were told otherwise. That money is being accrued right now as we sit here to your financial statements and it is a liability that you owe us for last year and I just like to state that. If you do not pay us and we don't reach an agreement, which I would tell you there is not a strong likelihood that the county will be terribly receptive to the agreements that have been put forward so far. At the end of this year there will be another $21 million accrued to your financial statement. Now, as you saw on the slide, you were supposed to end the year with $15 million. So that will be 15 minus 42. Year 3 it will be 63 million that you owe the county. We will now be a major creditor. Now I'd like to change hats for a bit

and go to my role as a finance director for a major city or county in the Bay Area. I have never seen a situation like this in my career and I think this is actually scary. The dictionary defines insolvency as the inability to pay your current obligations from current resources. The agency is technically insolvent. We are your partner on this agreement. For the pass-through is done for formula. You owed it for last year and you can't pay us. Therefore you are insolvent. I hope that sobers you up a little bit, because this is a very, very difficult situation that you are now in. You have a forthcoming CAFR, comprehensive annual financial report. I haven't seen that CAFR yet, it is not disclosed yet. But when it comes out, it will have hopefully appropriate disclosures on the current crisis situation. That will not help your credit situation. I don't believe that J.P. Morgan will be more induced to offer credit to you after they've seen that report. You also have a financial situation right now, where you're saying zero, zero on property tax increases which I agree on tax increment. But then, year 3, it's 7%. Now, we're not estimating that at all on our estimates right now and I don't think the city is.

>> Mayor Reed: I'm sorry, I got to ask you to wrap it up, over time.

>> Certainly. I think you're betting the farm on two things, economic improvement and continuation of your letter of credit and I think you have a house of cards right now.

>> Mayor Reed: Greg lipman, Bob Brownstein and James Zaretka.

>> Good morning, my name is Greg lipman. I'm the executive director of ACE charter school. Mayor and councilmembers, thank you for the opportunity to speak today. I'd like to urge you to adopt the RDA budget that has been submitted by the staff, and I'd like to speak specifically about the funding for the ace charter school and the Mayfair NAC. As you all know, through the work of the folks putting together numbers for the San José 2020 initiative, there are 40,000 students in San José who are currently below grade level. And if there is one thing we can all agree on today is, that number is unreceivable. A disproportionate number of students below grade level live in neighborhoods like the Mayfair and by the agency partially funding a construction of a new school in the Mayfair we can continue to turn this tide of underachievement and fully leverage your dollars. The million dollars for the new ace charter school will leverage $4 million in outside funds for the first school. And I think it's important to recognize that ace plans to build a cluster of schools for if neediest students and the neediest neighborhoods and the development of the first school will allow us to continue to build schools without the necessity for outside equity and so that your funding will be leveraged over and over and over again. We also work very closely with city staff, especially in the Mayfair community center, and we will be sure to continue to work with them to provide extra space for the classes, and the activities that are currently going on in the community center, the community center is absolutely filled to capacity. The neighborhood is consistently looking for more opportunities and more places to run classes for adult activities for kids and that's a partnership we look forward to starting and continuing. I think it's also important to recognize that this project is shovel-ready, negotiations with the Alum Rock school district have been very, very positive. There's a real ground swell of community support for the project. And this project will create, design and engineering and construction jobs at a time when we obviously need them. I'd like to thank you for your time today and thank you for your commitment to the children of neighborhoods like the Mayfair. I'd especially like to thank Councilmember Campos for her continuing support and Mayor Reed as well. We look forward to building a school that not only the students and the families of the Mayfair but the entire community can be proud of. Thank you very much.

>> Mayor Reed: Bob Brownstein, James Zaretka, Kevin Zwick.

>> Bob Brownstein: Mayor Reed and members of the agency board. Redevelopment is a public agency but this is not the public's budget. To many San José residents this budget lacks balance, and it fails to reflect community values. The impacts on neighborhood services, on housing, on the convention center project, on the General Fund, are all troubling. The source of the problem here is that the guidelines that directed redevelopment in preparing this budget were adopted with virtually no public review or public testimony. And we need to rectify that. We need to bring the public in the process in a serious, deliberative way and not in two minutes of testimony. This budget is complex. Its effects are serious. Are it involves very high risks. It is not reasonable for the redevelopment board to tell the public, solve all those problems on your own, and bring us an alternative budget. We need the redevelopment board to create a mechanism, a mechanism that allows a constructive way for the public to participate in this process. And I hope the board will want to cooperate with the public which is interested in constructively becoming part of the process in doing so. Thank you.

>> Mayor Reed: James Zaretka, Kevin Zwick, Bonnie Mace.

>> Good morning, mayor, members of the council. I'm James Zaretka. I represent the law foundation of Silicon Valley, and in turn, the law foundation represents thousands of low-income residents of San José who depend on the city council, the agency, and other agency to create affordable housing for themselves and their families. The last time I was up at this podium, you all were considering a citywide inclusionary policy which you all adopted and we think was a very strong statement in favor of affordable housing. Unfortunately, the budget you're looking at from the redevelopment agency is quite in contrast to that statement and the City's long and commendable history of support of affordable housing. This would be a black mark on that tradition. It puts all of the pain, as the director accurately phrased it earlier, the pain of the state's affordable housing money grab, all the pain from that grab onto affordable housing. We recognize, this is a very difficult situation for the agency and the city, and we're simply calling for the pain to be distributed more fairly, and spread it out. We're hopeful that the alternatives that we've heard that are coming from the City Manager's office will reflect a more equitable approach. Thank you for your time.

>> Mayor Reed: Kevin Zwick, Bonnie Mace, Dan Fenton.

>> Hi, my name is Kevin Zwick around I'm the executive director of the housing trust of Santa Clara County. Thank you for giving me the opportunity to speak today and for your support of the housing trust and affordable housing in general over the past years. Along with others that you've heard in the housing community I urge the city and the RDA to continue to be the leading city in California when it comes to meeting its affordable housing obligations and to find an alternative to fund the state take away of RDA funds rather than by having the housing department and affordable housing take the brunt of that obligation. By having the housing department borrow to its full capacity to pay off the state it essentially wipes out all new affordable housing developments for the next five years, and of course affordable housing is still needed. San José and Santa Clara County continue to be one of the most expensive places to live in the country, and with higher unemployment and the foreclosure crisis it puts more pressure on rental housing, not less. And as I'm sure you know affordable housing development stimulates the local economy by providing jobs for contractors, subcontractors, architects and engineers in paying development fees to the city. Finally in years past the city has helped fund the housing trust out of the RDA's budget out of the 80% funds and we're extremely thankful for those contributions. We in turn help insist the city meet their affordable housing obligations by helping teachers and engineers and other professionals buy their first home and by providing gap financing to affordable housing developers. Since we started the city has contributed $2 million to us and we in turn have put $16 million into the city, a leverage of almost eight to one. Last year a $250,000 contribution to the housing trust we were able to leverage four to one and put $1 million back into the city by matching your dollar with a dollar from the state, a dollar from the federal government and a dollar from private contributions and we're still able to do that. So we just want to be part of the solution. We like to continue to help the city meet its affordable housing obligations and any contributions the city can continue to make to the housing trust out of RDA funds, we can help to keep a couple of these affordable housing projects alive over the next few years. Thank you.

>> Mayor Reed: Bonnie Mace, Dan Fenton, Michael Mulcahy.

>> Thank you, Mayor Reed and agency. Bonnie Mace, chair of the housing commission, and I want to speak about the proposal to take $75 million from the housing fund, pay the total Craf take. Obviously, the housing commission will oppose this. And furthermore, we would like to recommend some of the ideas that were presented in the city Manager's presentation. Four of these in particular are of interest to us. First, that the city and the agency explore alternatives, since this is a very large take, and as others have said, it should be distributed widely so that we don't have to have the burden all on the housing department. Second, we should ensure that the essential housing services will be maintained, especially rehab and the teacher and faculty housing, these are very important to us. Third, we would like to ensure that the committed projects are maintained. It's very difficult when you're in mid stream in a project to discontinue it, and therefore all committed projects should continue on. And lastly, that there should be a flexible borrowing strategy. This is very important in that if we have the money we should immediately repay it to the housing fund such that the housing fund doesn't suffer. So in conclusion, we oppose this particular proposal, but we are very interested in exploring other alternatives, and thank you so much for your time.

>> Mayor Reed: Dan Fenton, Michael Mulcahy, and Elizabeth Manley.

>> Thank you, Mr. Mayor, Dan Fenton with Team San José, and also really honored to be here representing a creative group of hotel owners in San José who have come together over the last couple of months, worked very closely. And I want to publicly thank a lot of senior team at the redevelopment agency, Harry in particular, who have really looked at in this tough economy, how can we revise the convention center project to be reflective of the economy but also to accomplish the goals that we set out to accomplish. And those owners have done that through a lot of great work and we're here today to certainly thank everyone for recognition of how vital this project is and ask for creativity in figuring out how can we bridge the gap between the amount that is allocated from the transient occupancy tax and the amount that is currently in the redevelopment budget to in fact move this project forward and do the great things that would come with having a convention center expanded and improved. So we urge you to think about this going forward and again I want to thank the leadership of the redevelopment agency and on behalf of the hotel owners for a lot of creative thinking that has got us to this point and hope we can keep this moving forward, thank you.

>> Mayor Reed: Michael Mulcahy and Elizabeth Monley.

>> Good morning, Mr. Mayor, city council, while you could really get the Monday morning blues coming into this building, but, you know, the gentleman who talked about the house of cards, you know, if you put your cards away you never have a chance to win. So I'd like to try to think about it a little different. You know me as a baseball guy, a convention center guy and an arts guy. And I want to paint a picture that I think about three years from now when we've got a completed airport, and expanded renovated convention center, a baseball park under construction, and a thriving arts community in the downtown with the renovation of the civic auditorium and the Montgomery Theater. To me, that's what I think I'd encourage of you to keep your eye on. That's the living room of the entire city of San José, you've made significant investment, you and prior administrations, on our downtown. We cannot stop now, when we know there's a future in San José, there must be. So we really encourage you to keep your eye on the ball and continue to invest. Specifically to the convention center which is a shovel ready project. And that benefits everybody in this room. Whether you're a housing advocate, a jobs advocate, an arts advocate, a government advocate, whatever color you wear in here today, the convention center is an economic engine for this city. We must keep it moving forward. Thank you very much, and good luck, as you drive through this budget of the redevelopment agency. Thank you.

>> Mayor Reed: Elizabeth Monley.

>> Good morning, I'm Elizabeth Monley. I'm chair of the downtown parking board. The downtown parking board fully appreciates the economic and financial situation that the redevelopment agency and the City of San José finds itself in today. And we want to be a part of the solution. However, the parking fund is a special purpose fund, and it's a long term fund. The downtown parking board considers the depletion of the capital development fund to be a serious issue, and it involves the public trust. So we will be holding a special meeting, November 16th, and we hope to have a policy recommendation for you at that time. Thank you very much.

>> Mayor Reed: That concludes the public testimony. Although there are other opportunities, in case anybody is watching us on television, we will have a hearing on this budget tomorrow afternoon, as part of our council meeting, and that will be continued into the evening at 7:00 p.m, in case there's somebody who couldn't make it and wants to speak, a couple more opportunities to do so. Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. First, for both RDA and the City Manager, can we get the two presentations that were given, e-mailed to us so we can have it for reference?

>> Yes.

>> Councilmember Constant: Okay, great. That would be very helpful. As we keep moving forward on this budget, I think we need to, in my opinion, do much like what I expressed in our regular General Fund budget, is we really need to look at what is our core, what is our essential purpose for operating. And I think as you look at the redevelopment agency budget and you analyze what the core purpose of RDA is, it really is to invest in

economic development, to really create an environment and spend money in a fashion that comes back to the city, hopefully in very high multipliers by the economic engines it creates. As we make decisions where we're going to spend our money we must consistently ask ourselves on virtually every line item, what is the long term return on the money? How are we going to produce a revenue stream from the economic development that is going to allow us to do all the things we want to do about it? To make sure that we just don't just have money to spend in the neighborhoods this year, next year and the third year, but that we have it for the next five years, 10 years, 15 years, 20 years, going down the line. I think we also need to look at each line item and say, what areas of investment are we going to receive some leverage, or perhaps, matching funds, as we go forward? It is something that we need to ask, because we need to make every dollar go as far as possible. And we know we've got lots of discussions of priorities, and the council's already voted, and we saw the slide earlier. But the convention center expansion and the A's consistently bubble right to the top. They're important things we know for our future in San José that those two projects are going to have significant impacts. Not only in the dollars that they return, and the economic impact, but also, in the really quality of life impact for our residents, in the civic pride, in the branding of our city and the way people throughout the country view our city. We have a situation with the convention center where we're leveraging a dollar for every dollar we spend. We have the hotel owners as we've heard, have voted to impose an additional tax to generate a large sum of money, that is dedicated specifically to the convention center. And by us, spending our money, efficiently, and effectively on that convention center expansion, we know that we're immediately getting a two for one, we're getting a dollar match for every dollar that we put in. We know we're going to get economic return out of it. We know that we're going to be bringing people from out of our city, out of our state here to the City of San José, to not only visit our convention center but to also spend a lot of money downtown. We also know that there is another large budget implication, because we know that we have a significant debt, so to speak, in deferred maintenance, work that we know has to be done at the convention center. That work will be really fixed with the expansion. But without that, we have to ask ourselves, what do we do if we don't expand the convention center? What are we going to do? How are we going to fund those millions of dollars of renovations that need to be done? And if you now add that into the equation and say, $70 million for the expansion not only matches $70 million from the hotel, but it also eliminates a significant amount, I don't remember the exact number, but millions and millions of dollars of maintenance that needs to be done, right now, on that building, some of them very critical functions that, if those systems fail, will be out of business, you know now see that our leverage is really two to one or 1.7 something to one. You get a significant leverage to our money by putting money into the convention center expansion. So the question I have to staff would be, if we can't pull off this convention center expansion, how then are we going to plan for the repairs, the hefty repairs that need to be done? And since I can't remember the number, I've drawn a blank, remind me what that number is and the critical components of that number.

>> Harry Mavrogenes: Well, as I understand it, there's at least $50 million in repairs and deferred maintenance. That number can go up significantly higher. I don't know that the city has a mechanism other than this tax that was going to be from the hotelliers, the initial amount was going to go for a bond issue to help build the facility. But as that amount grew, there is to be a sinking fund established that will ultimately deal with those on a long term basis so that we don't have continued deferred maintenance. Absent the support of the hotels, I don't know honestly where that money would come from.

>> Councilmember Constant: Yeah, I think that's something really important to think about. Because if we can't fund the expansion, the hotels, what's going to happen to their commitment? What options do they have? I would assume they have a right to go back to a vote to rescind their action. But can someone explain what are the options that we may be faced, or future obstacles if we can't do this, and then convention center community says, well if the city can't do it, we don't want to do it, either?

>> City Attorney Doyle: The authorization that was approved by the hotels was for the city to impose an additional 4% tax. That is now pending in court, which is called the validation action, and we're pursuing that right now. If there comes a point in time when the city council wants to abort, the council does not have to impose the tax. You're permitted to impose the tax, but I think the council can decide not to impose the additional 4%. So that's always an option, worst-case.

>> Councilmember Constant: Great. I also wanted to mention a point that Harry brought up about the sinking fund for maintenance and ongoing repairs to the building. If anyone doubts how important a fund like that is, I invite you folks that are listening to go take a walk around the convention center and walk around the HP arena

and see what the difference between a facility that plans for, and funds, the ongoing maintenance and repairs to the building. I think it's striking. I was at the convention center, just the other day when we announced that the figure skating competition is coming here to San José. And looking around that building you'd be hard pressed to tell if you've never seen it before that it's more than five years old. The place looks great! I hope that's something we can do with our convention center. And finalizing the expansion funding, along with the hotels' commitment to tax and fund the match and the ongoing sinking fund I think is critically important to the City of San José. And we have to remember that what we do here is -- it's going to affect us for years and years and years. And I think we have to keep our eye on the prize, which is how do we turn this into ongoing revolving revenue streams? So with that kind of foundation in mind, if we approve as it is, or less funding for the convention center, what are our options? What can we do to fill that gap? There's a huge gap. We've heard that it's shovel ready. I think it's more heavy equipment ready. This is not just ready to break ground, they're ready to move in every piece of equipment and get this thing get going. And I think the design-build process will allow us to do that virtually immediately. What are our options for filling that gap otherwise?

>> Harry Mavrogenes: Mr. Mayor, members of the board, very good question, very difficult to answer. I think part of it's going to have to be look at the hotels themselves, and if that fund can support a larger bond than the presently assumed, $70 million. The project has been brought to a somewhat smaller size. We may want to look at some of the aspects of the project to see if some of those costs could be reduced. Certainly, trying to do it sooner than later and also, taking advantage of the bidding climate right now are going to help, with the design-build process. There's still potentially a gap. We show our funding split between year one and the fourth year. There needs to be looked at I think a way of maybe bridging some of that gap. But it's possible there's a way to bring it in with some creative financing in between, but we'll need to look at that together with the city.

>> Councilmember Constant: Thanks, Harry. Hate to put you on the spot but Paul, do you have any input into that particular question? You can say no if you want.

>> Mayor Reed: My guess is, Paul has thought about this before.

>> Councilmember Constant: I bet.

>> Mayor Reed: He'll have something to say.

>> Paul Krutko: Paul Krutko, chief development officer. Councilmember, I think Harry put his finger on it. I think we're going to have to look at creative options. I think that there are some that we need to explore. Or other financing sources, other ways to think about how we own and control the convention center. So I think there are some options we can explore.

>> Councilmember Constant: Thank you. I know our window of opportunity is fairly short given our time line for us to get through our process with the public hearing tomorrow, and the budget documents and message and all that, and get to a conclusion. But I just want to make sure everyone really thinks about the importance of the convention center, thinks about what happens if we don't do the convention center, and keeping the perspective that we've already taken a $300 million project and made it a $140 million project. And we've had some of the brightest minds in our valley thinking about this, looking at this, coming up with creative solutions. And I think we really do have it pared down to what is arguably the least we can do to get the most impact going forward. I just think that it has to continue to be our RDA and city council priority going forward. With of course the A's just slightly right behind it because that's another project that has a significant potential future impact for us. So I know we don't have any easy solutions or answers. I just hope that we can continue to keep our eye on the prize, so to speak and think about these two projects, and what they mean to us in the long term, but also, the opportunity we have to jump on these projects in the short term, and in an environment where building a convention center during a recessionary period with low bookings is the best time. Building a convention center expansion when we know construction's bids are coming in at record low cost is the right time. And getting this completed at ready to book activity as the economy turns around also means this is the right time.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: Thank you. I was looking at page 3-9. And it shows our debt service and others at 56%. In the gentleman's book from the county, in liability that would be incurred by delaying the county payment, what would that do to our debt service and how would that be reflected in our budget?

>> Harry Mavrogenes: I'll let David respond first I have follow-up.

>> David Baum: Okay. The county payments are subordinate to all agency indebtedness. And so that would be part of debt service which is always first. Because the way we receive tax increment, it goes to the trustee bank first. And then as we fill up the buckets to pay principal and interest of our debt, then we get money back for other use, uses. Those would include the county payment. So the bond holders would always come first, and so that wouldn't be a problem going forward. We must make money available to pay the bond holders.

>> Harry Mavrogenes: If I may add, I think the presentation from the county was unfortunate, and not in the spirit of what we left the conversation the other day. But we fully intend to sit down with the county and work this out. It may not be that we can pay in the beginning years, the levels that they want. We have an opportunity to negotiate, we'd like to. And I think we can work together, despite what was said today. But this is a very difficult time. It's a large amount for us. The county's budget, I believe, is significantly larger than ours. This is 1% of their total General Fund budget. So I think there are ways to work with the county based on discussions with the county executive, and we will continue that effort.

>> Councilmember Chirco: And my follow-up question would be, how would that liability be reflected in our budget?

>> Harry Mavrogenes: I think when we conclude negotiations -- I think you need to give us some space for the attorneys to do a negotiation and what results will be a settlement.

>> Councilmember Chirco: My concern would be, how that would reflect on the credit rating. Those are all questions that I'm guessing need to be answers.

>> David Baum: One of the things that I would like to point out again is it is subordinate to all debt. And recently, Moody's did affirm our credit rating, and San José redevelopment agency is one of the top 10% credit rated agencies in the state, with an A 3 rating for Moody's.

>> Councilmember Chirco: I know there's lending in this budget, like $30 million if I understood it correctly. So I'm guessing it's logical to expect that percentage to climb? And that's just on the bond that I thought I understood was going out this year. 30 --

>> David Baum: We do plan to issue 30 million of bonds, in the first half of 2010. And it is something that's provided for in those letter of credit extensions. And as allowed through the growth of revenue, we would expect to issue more bonds through the 2015 year.

>> Councilmember Chirco: And then on the 2010-11 projections, it shows a reduction in funding for city services, which -- but my question is, will there be a finer analysis of the relative importance of these services in advance of the city budget, as we -- you know, because we're looking at two budgets concurrently. And to know how these reductions would affect within the various individual areas that are outlined in the RDA budget.

>> Harry Mavrogenes: I think as the presentation from the City Manager also indicated, we're going to try to work together. We averted a problem on the city side this year by stepping up and cancelling some contracts to be able to fully fund the city staffing side. So we don't have a problem of immediate layoff notices, et cetera, et cetera. But between now and the time they prepare next year's budget, this has to be taken into account. So I think we're going to work together and you'll know the impacts from both sides.

>> Councilmember Chirco: And that would be the same statement from the City Manager? Thank you. On the housing, I know the RDA talked about contractual obligations that have to be honored because they are already contractual. So on the housing, my question is, with the complete takeaway of the housing funds, does that affect any contractual obligations that the housing department has?

>> Harry Mavrogenes: While Leslye comes down, we're not talking about a complete take away. We're showing funding the dollar amounts for the housing fund this year. We're seeking to use their debt capacity to borrow. So we're fully funding the housing fund this year and next year in the proposed budget to the tune of $40 million. We are proposing to tap into their debt capacity. That will diminish their ability to do other projects, we recognize that. We are hopeful as the City Manager lined out that we will not impact any existing commitments. We want to make sure her guiding principles of the programs for rehabilitation are done. But there will be some impacts on new projects, and Leslye can talk more about that. And we're still discussing that. We're not down to a solution yet. Leslye.

>> Leslye Krutko: Just to follow up. We, what we are doing right now is providing the opportunity for the council to make a policy decision on whether to borrow these housing funds. And what the guiding principles we have would allow us to make those project commitments that we currently have. What the borrowing would do is make it more difficult in the next five years to be able to take on any new projects. I should say we are quite a number of projects where we've already spent city funds and we've purchased the land for those projects. Those projects we would not likely be able to continue until increment begins to pick back up and we can borrow again.

>> Councilmember Chirco: And kind of a follow-up question. I know we've done some conversion of affordable units to market rate because they were unable to fill the affordable units, because you could get market rate units less than the affordable units. So I would be interested in knowing, away is the availability of affordable units because we do have a high vacancy factor right now. And what --

>> Leslye Krutko: Councilmember, I'm not sure I understand. In recent days because of the current market there have been market rate projects that have converted to affordable. We've not had affordable projects convert to market because those are restricted funds and restricted uses.

>> Councilmember Chirco: I thought I remembered one, I think it was community housing, Silicon Valley community housing, and they had built an affordable project and they converted some of the units to market rate.

>> Leslye Krutko: To my knowledge, no. We did have -- they did build a project that was a for seam project, that had some affordable units. And what we've done is we've allowed them to rent the units but again for affordable rents until they can later sell the units. But any projects where they're affordable and we've committed funds we have affordability restrictions that restrict to those units.

>> Councilmember Chirco: And then I also have a concern about the rehab funds. Because that affects our health and safety. I know, I've been in homes that are in really shabby condition and really are not -- they create health and safety problems to the residents as well as to the community. Thank you, Leslye. I look forward to further conversations.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you. Harry, I wanted to ask you a question regarding the SNI playground improvements. I know that you have money set aside, not to be used until about four to five years out to actually start working on those amenities. I'm wondering if you can answer this question, if a particular council district has some C&C money that could actually be used up front to start the process, and what it would be would be shovel ready, to build that playground. And then years out the agency could reimburse the council office with the funding, to make their C&C whole. I'd like to know if we can legally do that?

>> Harry Mavrogenes: A legal question first, but I think conceptually, I like the idea.

>> City Attorney Doyle: Councilmember, the one legal issue is in order to pay for public improvements, the council has to make the funding that there aren't available city funds, and that would be the issue.

>> Harry Mavrogenes: There may be another approach councilmember that we've looked at for several of the other parks. We've had parks where there were two components, a city funded portion and an agency funded portion and the city money was supposed to come in a little later. We just sort of swap the priorities out, and we

may be able to do phase 1 with the C&C funds, phase 2 then can be done with the agency funds in the out years. We're looking at, at least three or four cases like that, and I'd like to explore this one further with you.

>> Councilmember Campos: And the reason I bring this up, I'm sure you're aware of a playground that was burned down in I think it's almost a year, or a year ago, it is in an SNI area, and we know that we need to create safe places for our young people to be able to enjoy recreation, and it's a blighted area, it's drawing unwanted activity, and I think we need to get eyes back in the park in a positive way. So I would really like to look and work with your office on how we can make that feasible.

>> Harry Mavrogenes: Thank you, councilmember, that underscores the importance of that SNI program and of course we unfortunately used your guiding criteria and many of the projects didn't meet those. But again if we can swap funding out with the parks people we'll look at ever possible opportunity.

>> Councilmember Campos: Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. I also wanted to ask some questions about the SNI budget for strong neighborhoods initiative. And Harry, if you could help me understand, in terms of we look at line 11 on K.O.N.A. We actually have zeros going back from 2008.

>> Harry Mavrogenes: That's correct.

>> Councilmember Herrera: The forward-going numbers don't concern me, as much as the fact there wasn't anything going backward. And I guess what I'm concerned about is just the fact that there has been no investment in this SNI project area for so long. And there's a project and I know we've talked about it and it's a potential facade project at the corner of King and Ocala and the business is called pop answer mini mart, it's basically an eyesore of blight, it's dilapidated, tends to draw vagrants and illegal activity. And with an investment of 40,000 to $8,000 and we could greatly improve this. And it is my understanding that the property owner is willing to invest. So I would just like to get your comments on that and --

>> Harry Mavrogenes: Sure let me --

>> Councilmember Herrera: And I'm also intrigued by the idea of council offices being able to help out too. I appreciate Councilmember Campos' idea. I understand it's a tough budget and I want to make one other comment, I think the SNI areas are economic engines as well. Not only do they help, the money put in there helps neighborhoods become safer but I also believe it helps with economic development. So it's really important. I appreciate the fact that you've kept money budgeted in the SNI budget. So I'll let you answer my question now.

>> Harry Mavrogenes: Yes, in the K.O.N.A. area what this chart doesn't show is in year 2007 and '8, we did have a $110,000 expenditure. So far in K.O.N.A. we've spent $1.9 million. We'll get you a full accounting of that but if current year does not have a budget. I want to look at the facade program, which is a separate line item for the NBDs. We have been using that type of funding successfully in some of the SNIs and have converted some commercial areas nicely, so we'll look at that fund to see if that project fits the criteria.

>> Councilmember Herrera: Thank you. I also want to thank the staff for all of the hard work and just acknowledge that this is just a very tough budget and very tough decisions. And I'm hoping we can come up with some creative ideas in terms of the housing, our housing program. Because it's very important and we've done such a tremendous job in creating affordable housing, rental affordable housing in San José and obviously that need is going to continue. At the same time I want to stress my belief that economic development has to go forward. Just like we're asking our businesses and our communities to believe in the future of San José we need to believe in it by bringing forward these projects that are going to leverage dollars and that are going to bring in economic opportunity and I'm afraid if we don't do that as someone pointed out the outlying years where we see increases of 7 to 8% that won't be there. So I do support the convention center project. I think I've been very impressed with the fact that we've been able to reduce the cost but still get the major benefits and not the least of which is fixing the problems in terms of infrastructure maintenance that are not only due in the future but are due

right now. So I just don't -- I just think we just definitely need to pursue that convention center project, but also try to look at -- try to look at other ways to mitigate the impact on housing. Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I agree when you asked the question, what will attract the most future dollars, it starts with the convention center. If we continue as we are now, the delay of doing whatever we need to do would cause further distress because the reputation in the community becomes worse and worse and worse. People want to come to state-of-the-art facilities that does satisfy the needs that they have. So if the convention center were completed and there has been a new plan which will -- a redesigned plan which will limit the amount of dollars needed, the hotels have done a stellar job with coming through with their involvement, this would help attract dollars which would attract more jobs, it would attract more sales tax, it would attract more improved business conditions, maybe more businesses would come to San José, more visitors, more help for business, more sales tax, et cetera. There is a cycle that happens, Mr, Councilmember Constant was very articulate in describing a lot of that. So I agree, that we need to take a good hard look at getting our major attractions up and ready for business. Thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: thank you, mayor, and thanks for the presentation that John, David, and the staff gave. Question regarding I think Mayor, you referred to the park land trust fund, and my question is more general in terms of seeking sources of funding beyond just looking at housing. I know that the legislature in their taking of our money certainly, kind of set up this -- set up the scenario of seeking support from the housing fund. Are we aware of any other -- what other jurisdictions are doing, is this basically just the go-to funds that most jurisdictions are going after because the legislature kind of pointed everybody in that direction or are there other creative things that other jurisdictions might be doing that we can at least take a look at if not coppy cat?

>> Harry Mavrogenes: I's spoken to John Shirey, from the California redevelopment association, most agencies he's spoken to have tapped their housing fund, as well as whatever other resources they have. But the majority of them are looking at borrowing from the housing fund. The law kind of makes it -- I think it's directed to cities that may not have been as aggressive as San José has in using their housing funds in the past. So we get a bum rap in that way because this housing department has done its job. So -- but that's the fund that has been there, and there is no other state pool, as there was last time. Because of the lawsuit. So we really have to look at other internal sources, I think.

>> Councilmember Kalra: Yeah, and I think that you state it well, the fact that we've had a housing department that's been doing its job and other cities maybe it's not going to have as much of a practical impact on them because they hadn't been leveraging using and leveraging those funds as well as we have. So certainly I would ask for the continued exploration of alternatives. And to be as creative as possible in doing that. As mentioned earlier, the discussion of investment and economic development we ultimately agree is critical with the RDA funds. Something specific I think the mayor brought up the pipeline prompts or projects of growth, speaking to what I know best the Edenvale area in my district every company that was referred to I've had a chance to talk to around visit, with the most recently Equinix, and I think there is some promise, but we have to make sure that we continue the investment. The reality is over this year, and the opportunities I've had to visit many of the companies there, not only are they here in San José but many of them are committed to San José specifically because of the relationship they have with the redevelopment agency and the ability of the redevelopment agency to really make their transition here and their stay in our city as profitable as can be and as welcoming as can be. And so I think I've certainly firsthand had the opportunity to hear from dozens and dozens of companies that have very specifically indicated the help that redevelopment had given them and they probably wouldn't be here if that was not the case. Certainly we must consider the long term impact of jeopardizing the opportunity to nurture those relationships. And additionally in regards to the convention center, I agree with a lot of the comments that were made and I think not just the Dan Fenton but Eric Larson and Michael Mulcahy, talked about the benefits, obviously the ability to really boost our construction market at least in the short term but to me most importantly it's certainly the sinking fund and the commitment that we're getting from private investment and the fact that this scaled down $140 million version is a significant scale down of the projects but keeps the elements that have been told to us from those that know it best, the hotelliers themselves, what are those items that would still

continue to give us the best bank for our bucks, that together with the sinking fund are critically important if we don't create the fund for maintenance as Councilmember Constant reiterated, we're going to continue to dig ourselves into a hole so I think that that's something that I hope we can all agree is at least important in terms of the ongoing maintenance component. Also, lastly, the SNI neighborhoods, without speaking specifically to the neighborhoods in my district, just kind of generally speaking that we have to find ways to continue our commitment to neighborhoods. Even if we can't always get the money in the next few years to invest, there may be ways for us to continue to be seeking leverage and seeking opportunities. Whether they be grants, federal and otherwise, if we can at least always be on the lookout for the opportunities that specifically go back into the neighborhoods that given the fact that it's likely people are going to put our focus on economic development but we certainly don't want to go backwards in some of these neighborhoods where there's been so much improvement in the last couple of years because of SNI. Thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you mayor. I would just end it with these are not normal times for any city in the United States and specifically in California, the challenges and the circumstances we've been provided we have limited resources we're going to have to make a choice. My preference is that's on economic development that would bring money to the City's general over the longer term to pay for the core services of our city, and that's just how I see it and then lastly I had a meeting in my council district in the month of October with a room full of people covering the redevelopment agency, as a topic and going over the budget budget and the choices to be made. And I would say it was nearly unanimous, everyone felt that all the money we have left the limited fund should be spent on economic development. Thanks.

>> Mayor Reed: I think that's about the end of the council discussion for today. We will be back tomorrow afternoon taking public testimony and tomorrow evening, as well, on this proposal. I had a couple of closing thoughts. First is, I want to thank our city staff and our redevelopment agency staff because the amount of work that they have done together, collaboratively, not always happily, but collaboratively, these are tough problems trying to sort them out and work them out and I want to thank the staffs for doing that and working together through tough times. I want to remind the councilmembers that November 12th is the date to get their budget documents in, into my office and we can figure out how to move forward and, had one last question. I'm thinking about tomorrow. There are multiple housing projects on our agenda tomorrow. I'm trying to figure out what impact, if any, those projects might have on the redevelopment agency budget, or the redevelopment agency budget might have on those projects. Since it's tomorrow.

>> Leslye Krutko: Mayor, the actions that are on the agenda tomorrow are to issue bonds on projects where the city has already provided funding to purchase the land and made commitment for construction financing. For those projects, that was done last spring. So at this point, we went ahead and purchased the land. The developers have been out there. They've secured their tax credits. They've secured their bank financing and they are trying to take the last step which is to issue these bonds. So the hope would be they'd be independent construction this calendar year and at this point with what we're looking at, these are what we'd consider these committed funds we had and we would hope as we go forward and if we were to do the $75 million borrowing that would not be impacted by this, the actions tomorrow.

>> Mayor Reed: Okay, City Attorney had something to say?

>> City Attorney Doyle: We'll be issuing a memo on whether there's a legal commitment. There's some question about that but the director is right. The council has adopted a resolution and people have been moving in reliance on that.

>> Leslye Krutko: And we do expect to close construction hopefully in the next few weeks on those projects.

>> Mayor Reed: Okay, thank you for that last question. I thank everybody for their participation today. I think it's just about quitting time here, and if we don't quit, we are going to lose our quorum anyway. So with that, we will conclude the study session, we'll take testimony tomorrow afternooon and tomorrow evening. Thank you. We're adjourned.