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>> Mayor Reed: Good afternoon. I'd like to call the San José city council meeting to order. This is the joint redevelopment agency-city council budget study session around the redevelopment agency budget. We had a preview workshop on this a few weeks ago, and now we're back with the proposed budget that the executive director put out a few days ago. And we're going to study it today. Ultimately we'll make some decisions in a few weeks but we're here today to allow councilmembers and the public to get some of the details of the proposed budget. As we begin to figure out how to solve yet another budget problem. We're experts about solving budget problems because that seems that's all we do. Somehow we'll work our way through it and get a balanced budget. I'm going to turn it over to our executive director and let him lead us through the presentation.

>> Harry Mavrogenes: Thank you, Mr. Mayor, members of the board, council. It is my pleasure to present to you our budget our three year spending plan and capital spending plan for the rest of this fiscal year. It has been a challenge. We present to you a balanced budget. Within that budget for the three years it's a more excessive capital budget than we previewed with you in June in that it has less capital spending in the first year in order to preserve a cushion into the second year and third years. As we walk through the budget you'll see some of the aspects of that. But we believe that we're going to move cautiously over the next few months and look at -- and revisit the budget in midyear as well to see how the economy is going so that we can get through this difficult period. I've said this in the past and continue to believe it, this agency being in the heart of Silicon Valley has a great future. We're seeing growth in companies, we're seeing prospects coming in to locate in San José, much stronger than in the last year. And we believe at the end of the day, when a lot of that data is added in, we'll be doing better. There are still challenges, though, with valuations, with property tax, which is our largest source of revenue. So we hope that in the presentation that we'll do for you in the next half hour or so, we can answer many of those questions. Also, today, later on in the meeting, we've invited County Assessor Larry Stone to make a presentation on his practices and how he does the appraisal process so you have a better understanding of how that works and how that impacts our day-to-day business. I'd like to start the presentation with Bill Ekern. Bill is the director of our Project Management Division, much leaner division than it was in years past but able to focus on a number of projects. He'll go through our accomplishments and he'll also go through some of the active projects they're working on now and will be doing over the next year so Bill.

>> Bill Ekern: Thank you, Harry, mayor, members of the board. I have been before you probably four or five times already talking about a number of these projects with our quarterly reports, and I won't take a whole lot of your time. You are familiar with our accomplishments over the year. But the first project that we'd like to start with is the -- I'll start with the slide that's on the screen which is, again, introduces to the accomplishments of the year. You will notice some of the projects we're talking about the Safeway market at the 88, the opening of the Edenvale center and also the civic auditorium. If we can keep moving through the slides. And then Brocade, which is a major opening in North San José, Boxano was another major opening in the industrial area, and also, the industrial projects in the -- not industrial but retail projects in the Eastside. Specifically, starting with the civic auditorium, this is an $11.1 million investment by the redevelopment agency to transform the civic auditorium into a state-of-the-art performing theater and also to provide increased support for the operation of the convention center. We're presently on schedule to open that project in January of 2011. And Team San José, the city office, City Manager and Team San José worked with Niederlander to begin programming that facility. Critical to the downtown and support of the downtown was opening of the market, the Safeway market and the 88 condominium market. What I'd like to focus on is the jobs, the 25,000 square foot market has about 48 full-time employee equivalents, and so it again creates jobs in the downtown and is in support of the directive we received from the council on numerous times this year, and that is, to look for way to create jobs and jobs and jobs. The pasta market is out in the market center. This is a new opening. There are approximately -- get the exact number here from my staff -- 16 jobs in the pasta market, as well. This is a 2800 square foot development, recently opened, and again the market center which was supported by the redevelopment agency and considerable effort by the City's planning and economic development staff to open this facility, and provide really great retail opportunities proximate to the downtown. The Ross dress for less which I've talked about many times before which is a critical development in the downtown development, the first major retail in the downtown in decades. It's very exciting. This facility alone provides approximately 50 jobs in the downtown. Panda Express is also in the Marketplace Center. It provides 11 jobs. Again, it's not a very big facility, but every job is a job that helps drive the economy, moves us forward in our support. BCA Architects in the downtown is great. They took an older building and down in the market Almaden neighborhood, completely revamped the building, provided new office space for 36 new employees in the downtown. Brocade, this is probably one we can't speak of often enough. It's with an investment by the redevelopment agency committed to new equipment, they recently opened a 526,000 square

feet of office in North San José, almost 2300 jobs coming into San José. Boxano is a medical research, medical equipment manufacturer and developer, just opened recently in North San José, an office with about 38 employees, probably the key and I think indicative as Harry was saying that our confidence in the strength of the San José economy is, they went into the marketplace and received $30 million worth of funding in June. So again a very strong showing in North San José. Echo offsite home manufacturing, this is a relatively nine employee firm down in the Monterey corridor. This as much as anything else though is an example of the enterprise zone success and our ability to work with small businesses as staff bringing them in and bringing them incentives for opening businesses in San José. Edenvale community center as the council and board is very well aware we have had a very strong commitment to the neighborhoods and have had over the last decade. This most recent addition to supporting the neighborhoods and providing opportunities is a collaborative project with Great Oaks school district. Oak Grove school district pardon me. And also, the Boys and Girls Club who provide services through this facility, this just had a grand opening this last week. And I understand it was a successful one on one basketball playoff as well. And then retail in the neighborhoods I think is one of the most important things that we've been able to deliver over time. This is an example out in the story and king neighborhood which was on property owned by the redevelopment agency that we worked a development deal in order to provide specific retail. Especially banking and other needs for the neighborhoods.

>> Harry Mavrogenes: Thank you Bill. Again these are challenging times and some of the statistics we've given you before kinds of bear that out. We've had the job losses. We're obviously trying to make that up in some of the slides you saw. The $75 million state take away, of course, impacted us greatly. And more recently, the Santa Clara County assessment roll declined 2.43. Unprecedented decline countywide, has impacted us, and that's impacted us, and that's reflected in our budget this year, adjusting our revenues down 7.3%. Our increment of course declined a little over $15 million. Just historical, looking at the agency's revenue over time which is why I feel confident over time the agency will rebound, it shows how the revenues have grown. As we've had successes, we are the masters of our destiny here. And we can help make new development happen. We can encourage job growth, we can encourage retail sales and other growth that will help continue to grow the pie. We gave you in the last presentation our economist analysis for the next fiscal year. The report of course had a slight decrease. Our projection has gone beyond that, to be a little more conservative. But there's confidence long term

from the consultant in the markets coming back to improve the valuations. And that revenue will continue to grow in the future. This is the snapshot of what we have in the proposed budget. And the assumptions for the tax increment over the next -- this current year, negative 2% projected in the second year. And then a slight growth of 3.4 in the year after that. Now, the what-if question, I think it was asked at the last meeting and legitimate my so. We are seeing a 2% drop. What if it gets worse in year 2? Every 1% reduction in property value results in a net of $1.5 reduction in funds. That's based on the 80% of the increment. So for the economic development programs it's about $1.5 million. We're going to have a mid year check which allows for any adjustments to be made as we know more about the market. But again, in looking at the budget, in the second year, we're showing, as I said, we deferred some of the capital expenditures out. A $9 million ending balance for year 2. Now, that gives us some cushion that if the economy continues to go down, we have the capacity to absorb a drop of up to 7%, without digging into that capital program. Just by strictly digging into the ending balance. It will mean year 3, we will probably have to make some adjustments. But we believe right now that we've built in some cushion, and again, coming back at the end, we will recommend that we come back to you with a mid year review as well. Now, some good news. We have received a letter of credit proposal from J.P. Morgan. They are not proposing any increase up front funding, and the interest rate is actually better than it was last year. And we're in the process now of negotiating specific terms. We will bring that to the board probably on the mid to late October meetings, so that we can finalize that before the document -- current agreement is due. We also got some good news from the attorney general's office that the -- there is a potential decrease in the statutory pass-through payments on the AB 1290. This could achieve a savings of about $750,000 a year, going back two years, as well as going forwards in the future. That, when we have a little more certainty in the mid year review we'll bring back a progress report on that. And then again, signs of recovery that we have in industries, we've got some very good expansion going on. In the last year and a half alone, we've assisted 12 companies with equipment grants totaling almost $10 million and those are moving ahead. So revenue sources that we're depending on our beginning fund balance, the tax increment, growth or reductions as the case may be in the future, our supplemental assessments, the loan that we received from the housing fund, primarily for the CRAF, interest income and other miscellaneous revenues such as land sales and grants that we were very successful in last year. The three-year spending plan, basically, I'd like to have David get into the presentation on that now at this time. David Baum our financial officer.

>> David Baum: Okay, thank you Harry, members of the board and mayor. We've followed the budget principles that were outlined by the mayor and the board and approved most recently and as following those principles we have built this budget to reduce great what was our budget last year. Again, we're looking for a mid year review to a check in on our budget. We're focusing on capital projects that are economic development in nature and create jobs and we're focusing on some of our biggest projects like the ballpark and completing projects that are underway. And also, looking for new sources of revenue. You know, we plan to issue the $30 million of bonds last year but in an abundance of caution decided not to, as we saw the potential for the tax increment to drop. And so in lieu of that, we did sell property at a record level last year. And we're always looking for grants. And one of the proposals that we have and we're discussing with the county, our partners, is to -- and the city is to pull tax increment from the neighborhoods. And so those are some of the things we're working on. Next slide. Harry, did you want me to cover this or --

>> Harry Mavrogenes: Let me just quickly give you the overview. This is in your budget document. This is your source and use. There is two pages here, this and the one that I'll follow up quickly with this, the rest of it. Basically this shows as we indicated the actual decline of 7.89 to our roll this year, our beginning fund balance as of July 1st which was $79 million, and of course we've spent down on that, and I'll get into that in a minute. The reduced tax increment and our other sources, debt of course, meeting our debt obligations is a major point, because this agency has over the years been very aggressive in moving projects forward. And then our capital expenditures, which shows -- the budget shows a $48.3 million capital program for the first year, the bulk of it in economic development activities but also, significant funding in building public facilities. Then the budget reducing in year 2, the capital budget, and then coming back up slightly in year 3, assuming a modest growth in that year. Our operating expenditures, we're showing significant reduction next -- starting -- well again this year as you know we did 14 additional layoffs on top of the 25 positions we laid off last year. We've made adjustments there. We're proposing on the city side support services to carry the funding this year. But to not carry the funding in the out years for additional city support services. We're not in a position where we believe we can continue to afford those in future years. We list our obligated payments, again, the county is a major issue here. We're in the process of negotiating with the county so we're not showing the major county payment here that was under the

agreement. But on the balancing side we're showing again an $18 million reserve at the end of year 1, 9 million year 2, fairly thin but credible balance at the end of year 3 of $3 million. David.

>> David Baum: Just wanted to touch briefly on the beginning fund balance. As it was listed as one of the revenue sources. And this fund balance is really subject to completing our audit. And as we pay for expenditures, we're reducing fund balance but we're also reducing our capital expenditures. So that those expenditures have a zero impact on the bottom line. And so if we were to look at what our fund balance would be as of September 16th, to pick a recent date, it would be more like $75 million to start but there would be a corresponding reduction in our capital expenditures if those expenditures are reduced as well. So I just wanted to make that clarification. And looking forward to the pie charts, are now known as the bagel charts. This is just an illustration of what is in the sources and uses. You can tell by looking at this that our tax increment and supplemental assessments are a major source of revenue. But we lest also received a major source through the city. And the housing department for the payment of the CRAF obligation. Interest income has come down dramatically in the last couple of years as interest rates are approaching zero. So that is not a big source for us now. But miscellaneous income and other revenues such as lease payments, that has become a bigger source, witnessing last year's more than $40 million in miscellaneous revenue. I mentioned the beginning fund balance. This here are the expenditures that come out of that -- those sources of funds. Of course, the biggest amount is to pay for the $2 billion of debt obligations that are outstanding. So that comes up off the top. We have the 20% statutory set aside. We've had county payments that are currently listed here as the property tax administration fees, but not showing the current county payment pending the completion of our negotiation. Operating expenses have come down but we still have pieces in here for particularly economic development and our capital budget. The agency obligations to the city are listed here. For the longest time since 1986, since annual debt service payment of now $15 million. In 2001, debt was issued to build the fourth street garage and produces an annual payment of $3.4 million. The city improvements, there's a long standing program between the agency and the city, whereby the agency pays for city improvements that enables the best program to continue. Agency funded city positions are positions that directly benefit the agency that are on the city payroll. And the agency pays for 25% of the mayor and board office space, and overhead is a long standing commitment here at City Hall. Since 2005 we pay for a piece of the city attorney's office which we call general counsel office staff and litigation. OED, and others,

represent 33.4 million agency obligation. This is pretty much the same as last year's budget so try to keep the city whole despite the downturn in revenues. Reducing costs by deferring capital projects like the convention center expansion, many of the strong neighborhood projects have been deferred, as we've spent over $100 million for the neighborhoods, strong neighborhood program but due to the reductions in tax increment and the economy, it's really put a strangle on that money for that program. And then of course in the most recent action, the 14 layoffs as well as 17 vacant positions eliminated last week. So we're now down 21 positions from our last adopted budget.

>> Harry Mavrogenes: Growing the pie is sort of a comment we made before. This gives you a list. We've selected projects that are in the three-year spending plan that move that forward, and roughly $34 million, over half of what's in the future capital budget, is related directly to projects that will help us move our way out of this economic situation. A fairly significant commitment considering how tight the budget is. And of course the ballpark. We continue to work with major league baseball and Lew Wolff. That could be a very major leveraging. We've acquired most of the site already. There's a limited amount of resources in the budget to continue acquisition. But it could leverage easily a half billion dollar private investment and significant economic investments have been attested to on the studies done on the ballpark. So we look forward to that project. In the various categories that we have in the budget, I can go quickly through the current year. We have the city B.E.S.T. funds although we do not have funding in the future years for that in our budget. The civic auditorium, another $4.5 million to complete that. Under development preserve housing, just a reminder that 20% of our funds over the three-year period, over $112 million, will go to the housing department for funding additional affordable housing and of course our commitment to the are North San Pedro housing development which have we have gotten grants for provides 6.1 million in the budget for that. In the neighborhood categories, looking at the business facade program, we have money in the budget for continuing that effort. Projects in the SNI neighborhoods, and additional code enforcement staff support to supplement what we do in those areas. And again, we've said this before, but I can't stress it enough. We are going to continue to look for grants and partnerships. We were very successful in the prop 1C grant funding for the urban infill housing for the North San Pedro project. We've leveraged the 90,000 collaboration with Com University with San José State for volunteer services and we're going to continue to focus proactively, especially in the neighborhoods, on pursuing

foundations and pitching them on projects and ideas. New funding sources, we've mentioned this before, again exploring the option of collecting the tax increment in the strong neighborhoods I think is going to be key to this recovery and our economic success in the future and provide a sustainable separate funding source for the neighborhoods and allow us to focus our merged project funds on economic development. And then a caution in committing any new funding. As we've said before, we'll do a mid year review. And building a bridge to the future with the strong neighborhoods program. So that basically concludes our presentation. And we're open for questions that you may have. Thank you.

>> Mayor Reed: Thank you, Harry. I'd like to start with a few comments, and I want to start on a positive note since there's plenty of bad news to go around and we'll start a lot of our time talking about how to cope with the bad news. We're well into this recession. I know we're in recovery, it just doesn't feel like it. But there are certainly positive signs for us in the local economy that will help us in future years. We've had net job growth, five out of last six months. California's lost over 100,000 jobs in the last year but we're swimming against that tide and have some net job growth and that's a really good sign. We have a team of people which we're calling the jobs and revenue generation team. I was going to call it the pipeline team but pipelines have got an bad name recently. Jobs and revenue generation team working with a series of private developers who have money who don't have to go to the banks, they just have to make the decision to spend the money in San José. And they've said they want to do that in San José and we put together a team to work with them. There's a billion dollars, that's a billion with a B, of private sector investment that they say they want to break downed immediately. And if we can get them to the point where they will break ground end of the year, early next year with construction schedules and tax rolls and all those things taking a couple of years, we'd have an extra tax increment probably not in year 3 of this plan so much but the fourth year, the following year. As you can see from the revenues we need some tax increment growth in those years and getting these projects started now, when the economy is still weak, is really important because it takes a couple of years to get them on the tax rolls. Because they have got to build them first. And so those are under way. The staff is working hard on that. It all looks promising, and hopefully we'll be able to generate some additional tax revenue which will go a long ways to helping us provide services. The other things that are happening at Brocade of course is the best example, the agency has put about $2.5 million into some capital equipment purchases on the Brocade project. They've invested $350 million in

buildings, and probably another $500 million in equipment to go inside those buildings. So they're on the tax rolls for part of that, and that will be coming online and that's a good thing. And our other companies as well Harry mentioned made reference to a dozen companies that the agency has worked with and facilitated, just to remind everybody what those are. Nanosolar, solar power, Stion are three of the solar companies. And while our investment in capital equipment has been modest, I think probably a couple million dollars combined, maybe $2.5 million combined with those three companies, they too are investing in buildings and equipment. And they are also in the Department of Energy loan guarantee program looking for hundreds of millions of dollars of additional capital to invest in San José and create jobs. I think, Harry, you didn't give us an aggregate number, but I think there's somewhere around 4000 jobs involved in those companies, the dozen companies that you've mentioned. That's all good, we know how to do it, and that's why we've had some funds for economic development. We can leverage those funds enormously. So the amount of money that we invested with the Brocade deal will come back to us, more than that will come back every year forever. And that's a really good way to get out of this problem, is to grow our way out. Growing the pie as Harry said. So that's important to know. That's all positive, that's good news, that's leading edge, that's what's happening in the valley. I think our job is to figure out how to convince those people who have money to spend it make the investment, take the risk. Even though the national economy is difficult and the state economy is difficult, San José looks very good to a lot of these folks for future investments and that will create jobs which we sorely need. I think Harry mentioned 75,000 jobs we've lost since the capital markets crashed in '08. We hadn't even gained back the jobs we had lost when the dot-com boom went bust in '01. So we have people who have been unemployed for a very long time. Our work in creating those jobs will be good for our community and good for our own revenues. So I want to thank the agency staff and the city staff, our Office of Economic Development that have worked together on this team, the jobs and revenue generation team are across the agency and city staff, everybody that needs to play in that game, and they're working together, and I think we're going to get those projects over the goal line. Couple of things on the schedule. Today is the study session. October 5th we'll have a public hearing in the evening on this, October 15th I'll release a proposed budget message. October 26th is a hearing to vote on that. So we still have a lot of work in front of us. But today we'll get into some of the details. With that I want to see if there are councilmembers who have any questions on the presentation or the budget or the proposal or anything else. This

is a chance for us to figure out what's going on so we understand where we're before we begin making decisions on this budget. Councilmember Liccardo.

>> Councilmember Liccardo: Thanks, mayor. Harry, thanks for the presentation. I had a question as we look at the merged area source and uses fund summary, that I know is put up on the screen. It's described on pages -- the chart on pages III pages 6 to 7. I know that traditionally we've projected five-year budgets and I was hoping you could explain why we're stopping here at year 3. And forgive me, I know I came in a minute or two late, you might have explained this at the beginning of your summary about.

>> Harry Mavrogenes: Councilmember Liccardo, the -- we have in the last seven or eight years done variations of this. But this, I believe typically we've done a two to three year type projection. Last year we did a five-year. I think owing to the fuzziness of the projections, and the lack of certainty in the economy at this time, I felt comfortable really only going out three years, to be honest. Going on beyond that, I think is a little more speculative. We can certainly give you projections, plus or minus on that. But certainly, it's a lot more difficult to predict. And I think this -- this kind of reaches to the extent of my comfort level right now in predicting the future.

>> Councilmember Liccardo: I can appreciate some discomfort about anticipating where the numbers will end up given the uncertainty that is out there in the economy. My concern is given the numbers that are out there in the future, and I know you've thought a lot about this, specifically the CRAF payment of course. I know in the text it says that we've got $75 million essentially due the end of fiscal year 15-16. Is it the case that we owe some portion of that, is there 62 million that's due the prior year, or is the full 75 million due in June of 2016?

>> Harry Mavrogenes: I'll let David respond to that.

>> David Baum: Thank you for that question. Yes, there is a self-imposed penalty if we in fact don't start making those payments when they're due. And since the first payment was made on May of 2010, the payment for the full repayment of that plus interest is due by May of 2015. So that would mean fiscal year 2014-15, money is due back. Similarly, with the next 12.8 or 13 million that will be due May of 2011, that money needs to be paid back

five years hence as well. So that payment would be due -- so the full CRAF loan will be due and payable by 15-16.

>> Councilmember Liccardo: Okay, Dave, so as I understand it, 62 million is due May of 15, and 13 million is due May of 16, is that roughly accurate?

>> David Baum: Yes.

>> Councilmember Liccardo: Okay, so obviously everybody is worried about the $62 million that's due sooner and that would be roughly year 5 as I see it on this table. Is that right? What we see is one, two and three-

>> David Baum: That's correct.

>> Councilmember Liccardo: Okay. When we just look at back of the envelope numbers and obviously a lot depends on whether or not we really can boost tax increment growth as much as we'd like to. Back of the envelope, I'm looking at mandatory financing costs that we have under use of funds, line 15 roughly through 21. And I'm going to make a various assumption here that somehow or another the General Fund would pick up the Fourth Street parking debt service and convention center debt service which totals 19 million. I can see Deb is about to jump out of her seat. Because I think we know how devastating that would be to the general fund if somehow 19 million was found to replace that. But as I understand it, if we just picked just the mandatory payments, what I see is the numbers that we have just in year 3 alone, back-of-the-envelope exceeds $185 million, which is very close to the amount of tax increment that we get that year. And those numbers could well end up in the red. And of course, none of us up here want to put a $19 million on the General Fund knowing what we're going through there. So it's fair to say looking at the financing and other costs, the total financing already by the first year exceed the amount of tax increment we're going to generate. And the concern I have is that hole is going to get much deeper, and by year 5 we're going to have a $62 million payment we need to make in year 5, or else we are going to have a very serious penalty which will impair the agency's ability to every be able to bond in the future. So I think that we really need to put numbers out there, in year 4 and 5 so the council can fully

appreciate just how serious this challenge is going to be in generating $62 million we need in year 5. Because otherwise we're going to be making commitments on projects between now and then without really a full recognition of just how big a hole that is in the out years. Do you want to comment, Harry? About.

>> Harry Mavrogenes: Sure, I'll comment. I haven't seen the bask your envelope.

>> Councilmember Liccardo: Let's see your envelope not mine.

>> Harry Mavrogenes: We've done projections that show that with the strategic investments we're talking about that we would be okay in those out years. It depends on what projections you use in those years.

>> Councilmember Liccardo: Harry, I think you could use very generous projections for TI growth rate, and you're still going to end up in the red in year 5, by a big number. And the problem is, we don't have any sensitivity analysis, and that has been vetted for the full council.

>> Harry Mavrogenes: Well, again, I could certainly bring back numbers to the board that will show what potentially is out there. But you know, I believe there's been a good chance that we will be fine in those years. But likewise, if we just stop things we're doing, stop the investments, the $34 million investment in economic development that queer talking about in the three years should yield significant returns. If we just say okay, we're not going to do all that, we're just going to hold and wait to see what happens, I garden you you'll have a negative scenario. So it's all depending on how you want to look at how we approach the future. We have a chance to make a difference with this budget. If we choose to just sit back and not do it, close up shop, I guarantee you we'll be in the red and it will be worse for the city. But I'll be more than happy to go through various scenarios for the council and the board in upcoming meetings to show what some of those implications might be.

>> Councilmember Liccardo: It would be helpful for us to see years four and five.

>> Harry Mavrogenes: Okay and I just want to remind the board that the CRAF payment is basically set up mostly from housing funds. Although there are the city General Fund has had some risk with commercial paper. The housing funds if they are not paid back in five years, there is a penalty to this agency that the housing support fund would increase from 20% to 25%. I don't think we want to go there. But that is what we're looking at as the penalty if we can't make the payment.

>> Councilmember Liccardo: And to be clear the additional 5% comes off the top.

>> Harry Mavrogenes: It does.

>> Councilmember Liccardo: That is money we use to bond.

>> Harry Mavrogenes: It would impact our bonding. If we cannot -- if we have a 25% housing set aside in the out years it would severely impact future bonding, future economic development.

>> Councilmember Liccardo: Okay. So I think we're both concerned about the same things here, in terms of our ability as an agency to continue -- viably to continue to be bonding to promote economic growth. Where my concern is, as we look at just the straightforward numbers that come out of years 1 through 3, line 24, the total financing cost consists -- only exceed the taxed increment by $20 million a year, and we're essentially depending on ending fund balance to get us through from year to year. That is really the heart of my concern. Because we know that any ending fund balance get down to $3 million by year 3, and in fact by year 5 we're going to have a $62 million payment. So that's the big-picture concern I have, if you want to call it back-of-envelope or something else. If we don't have numbers out there in year 4 and 5, I think we're severely estimating the constraints we're in.

>> Harry Mavrogenes: Okay.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you, mayor Reed. I have a couple of questions and then just make some comments. On page, I think it's 1-5, or I-5, if I can speak to the second paragraph from the bottom, approximately $15.6 million or 25% of the budget's allocated for public facilities. And then the last line says 4.7 million to fund City capital improvements, and then in parentheses it says San José B.E.S.T. Can you clarify what is this connection with B.E.S.T? Are we funding B.E.S.T. projects or are we looking at perhaps obtaining some funding from the B.E.S.T. program to help fund some of these capital projects?

>> Harry Mavrogenes: We are funding the B.E.S.T. program. That is the amount in the budget this year, 4.7. But as I cautioned earlier, we are not showing continued funding of this program in the agency budget beyond year 1.

>> Councilmember Nguyen: Thank you, Harry. And then so since the recent layoff we have been hearing a lot actually from my council district. I'm not sure if other councilmembers hear from their respective council districts. But neighborhood liters are just concerned that the recent layoff of certain employees who actually have done a lot of work in the SNI neighborhoods, how their layoff is going to affect the different SNI neighborhoods, especially given the time and dedication they have put forth in terms of helping these neighborhoods thrive. I was wondering if you could speak to that, so I feel more comfortable answering these kind of questions as they continue to come.

>> Harry Mavrogenes: I'll let Kip Harkness address that, because we have addressed that question many times already.

>> Kip Harkness: Yes, Councilmember Nguyen, we were -- there were some very good people who left us, with very good skills and abilities working with the neighborhoods. Our commitment to the neighborhoods however remains as strong as ever, and as you know we recently released an information memo yesterday that shows how we are most in need. Every single neighborhood action coalition will continue to have a single point of contact at the management staff level in the strong neighborhoods team. And we will continue to have organizers focused in those neighborhoods of high need, in the 13 high need neighborhoods in the city. If you have any

questions or concerns more specifically I'd be happy to come out and speak with any of the neighborhood leaders and sit down and meet with them in one on one or small groups and understand their concerns and make sure that we're able to answer them as well.

>> Councilmember Nguyen: Thank you, Kevin, and thank you for that offer. I think it's important that we communicate effectively with neighborhood leaders. Because obviously we are doing everything we can with the limited resources we have and within the organization itself we know that but I think it's important for various communities to know as well. And then I just wanted to make some comments in regards to what I said earlier in the previous discussion we had regarding the RDA budget. I'm very concerned that even the faculty we are trying to entice more companies to come to San José and really develop economic projects, at the same time we need to have a balanced city. In order to have a balanced city, we also have to look at maintaining our neighborhoods in regards to issues that have to do blight, for site improvements. And just going through this budget, I see that we continue to do that, and so I'm very satisfied with our goal. The other thing I wanted to point out is the fact that although you know we definitely want to entice more companies to come in, but we also have to help companies that are already existing in this city. And specifically companies, manufacturing companies along the Monterey corridor. The big issue that we have right now, that we've had for many years, is the truck-routing issues. And so I noticed in the budget that staff is a working on no issue, I was wondering if staff can provide a memo or an update status regards to how we have done or how our methodology has been and what we hope to accomplish. Because this is an area that is actually helping to generate a lot of revenue for our city at this point, and it's just very, very important. And the Mayor, Councilmember Kalra, Councilmember Herrera and myself just recently went on a trip to D.C., and definitely manufacturing jobs is one of the big topics we discussed during this meeting. So this is an area, an industry that really, it continues to thrive as other industries are slowing down. So I wanted to get a status update on that. And then I also wanted to see if we can get a status update on the completion of the noise analysis along Interstate 280. We spent a good $43,000 on it and it said that status is completed. I wonder if status could provide city council with a status update on that, too.

>> Harry Mavrogenes: We'll be happy to provide those for you, thank you.

>> Councilmember Nguyen: Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you mayor. I just wanted to provide some clarification for some of the things I didn't quite hear right. First of all I wanted to congratulate you, mayor, for the $1 billion from the private sector jobs. I don't know what role you played, I mean, I haven't had a chance to talk to you about it, but congratulations. That's really, really significant. And you said there were 100 million more to come, and I didn't catch from where. Oh, from the United States federal level or --

>> Mayor Reed: Well, the solar companies and the other energy companies have applications pending with the Department of Energy for DOE loan guarantees. That is more than 100 million. It is 100 million for a couple of the companies and more among the others so it is really several hundred manage dollars pending that they intend to say in San José, on new buildings new equipment. And we are waiting on those loan guarantees. Every time we go to Washington we talk about loan guarantees, trying to speed up the process.

>> Councilmember Pyle: Thank you. And then what I'm concerned about is the incentivization. We've done quite a bit of that with companies that have come here, and I'm wondering where will that go? Will we able to help out companies that do come here, that need a little assist?

>> Harry Mavrogenes: We are proposing funding on the budget, I'll let Richard talk about some of the specifics, but we do have several pots of money in the budget specifically targeted to help industries that are either coming in or growing some of the new technologies in the budget. Richard, if you want to get into the specifics.

>> Richard Keith: Thank you, Harry. Richard Keith. Definitely, we still have $1 million in the Edenvale fund. In Rincon we have an emerging tech of $1 million and another 2.5 million, so 3.5 million in Rincon. And then a new fund that we created this year called the jazz creation fund, I think it's 1.1 million and that's particularly significant, because we can spend that in any one of our redevelopment areas. If something happens wonderful at Monterey

corridor or in downtown, and we get a big corporation, or a corporation that generates jobs and wants to relocate here, we have that flexibility.

>> Councilmember Pyle: Do you have the flexibility of using the funds for corporations and/or small businesses?

>> Richard Keith: Yes, there's no distinguishing level. Our main concern is job creation and long-term sustainability of that company and in San José.

>> Harry Mavrogenes: And we continue to leverage the state program, the enterprise zone, which has been very helpful in continuing to attract jobs, especially in manufacturing.

>> Richard Keith: By the way, just as an off-hand, we have 1600 jobs created under the enterprise zone program.

>> Councilmember Pyle: What was that figure again?

>> Richard Keith: 1600. I'll have to verify.

>> Councilmember Pyle: 1600 job, that's great! There was a comment made that for every percent of reduction in property value, Larry's listening I'm sure, results in $1.5 million in funds. Is that just with redevelopment, or is that across the board?

>> Harry Mavrogenes: That's just our redevelopment tax increment.

>> Councilmember Pyle: It's yours. So I guess I'll have to find out later what it would be for the city in general. Where are we now? Then the comment was made, pull funds from the neighborhood. I couldn't quite write fast enough and I'm not quite sure house that came out, when you were talking about trying to increase the dollar -- dollars that you would have available.

>> Mayor Reed: I think that was a reference to the strong neighborhoods initiative areas if we start collecting the tax increment in those areas.

>> Councilmember Pyle: That is what it was.

>> Mayor Reed: It wasn't pulling money from the neighborhoods.

>> Councilmember Pyle: Yeah, that could be worrisome. Thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. And I appreciate the challenge Harry that you face in trying to come forward with a budget. Over the weekend we did have at least the opportunity to enjoy the new community center opening in Edenvale and now the challenge is making sure that we can continue to offer services out of it and I know that is a unique model because we are able to have the Boys and Girls Club and certainly Oak Grove School District take advantage of the buildings, at least all the kids in the neighborhood can use it and we can go forward trying to find other ways to make sure that we offer adult services, as well. I also appreciate the funding to the Edenvale emerging technologies fund. I know that in the past, those types of funds have been very helpful particularly with bridge loans companies that are seeking financing to keep them afloat or at least keep them moving forward. I certainly appreciate that in there, I think you can be very helpful in terms of spurring job growth or at least continuing to spur job growth. I have a question going to page VI, 8-3. Mayfair 2012-this reign, $900,000 that's if or the ace charter school. And my understanding is that that's a project that would otherwise be shovel ready and can leverage multiple times in private funding, in order to move forward right now, and that there could be a risk of the project occurring at all if that money is put over to the third year. And so I wanted to know if there is any background or any information as to the determination to kind of move that to the third year.

>> Harry Mavrogenes: Yes, we're working very closely with the Ace Charter School. Again, we were able to put funding into this budget. Which I'm happy that we are able to do something. We have had questions about the readiness of the project. I'm going to let Kip Harkness speak a little about this, because he has had many conversations with them. Ace Charter School is very successful, is currently operating out of the Chavez Elementary School in some lease space across the street. They are in operation. This would give them additional facilities on leased land from the school board. We're very cognizant of some of the potential limitations they have there so we're trying to work that. As a caution, what you I want to say is, as I mentioned earlier, one of the things we want to do is come back to you with a mid year review. If we want to be -- and again this is your direction. But if we want to be very cautious about what we are going to do with our immediate spending, you know separating out commitments versus projects like this, we may want to wait until that February review before we try to move any money forward. But I'll let Kip speak to the research we've done so far.

>> Yes, Kip Harkness, director of strong neighborhoods. Ace has been very successful in their current facilities, just to give Greg Lipman here and his students and families credit, the 127 jump in the API scores is a testament to that. So what they're looking for in this is a new charter -- a new school campus that they'd be able to move those existing facilities into. We're working with them now to really understand what the project readiness is particularly understand where the rest of the financing is going to come from for the $5.8 million project to make sure that it is in fact shovel ready. And we're also working with them to understand what the impacts of having it in year 3 are, in terms of understanding their current lease with the Alum Rock School District and what the contingencies and conditions are of that lease. We have asked for a package that they're currently putting together and when we have that package we can sit down and understand both the project readiness and the potential impact to them if the money stays in year 3.

>> Harry Mavrogenes: We do not want to jeopardize their ability to take advantage of the lease terms if we can, so we're very cognizant of that.

>> Pardon me. We also did provide $50,000 in funding that financed the feasibility assessments so we're asking them to sit down with us and go over that information from that initial tranche of funding.

>> Councilmember Kalra: And I appreciate those answers, and I think that hopefully for short term we can get some answers as you work with ace to determine if there really is -- they really are going to be -- or if we're jeopardizing their ability to access private capital -- private financing which is going to put the project in jeopardy or if there are other issues that will arise based on the relationship with Alum Rock School District. I think the greatest worry is that -- is basically killing the potential for this project to occur by shifting that money to the third year. So I'd be most -- that's what I'm going to be interested in look at is making sure those questions are satisfactorily answered from my perspective. Thank you.

>> Mayor Reed: Commissioner Oliverio.

>> Councilmember Oliverio: Thank you, mayor. David Baum, you had mentioned a number of what we spent on SNIs of $100 million. And I thought I heard quoted before it was 70 million. So can I get just for the record which is the right number?

>> David Baum: I believe that it's between 100 and 105 million over the time period.

>> Councilmember Oliverio: Okay, I appreciate that. We've done a great service to a portion of the city and I always stress a portion because it's not the entire city. Harry I appreciate, in the study session that you've appropriated a large amount for economic development but I just want it to be known that if the entire amount was spent with economic development 100% I'd be comfortable with that in the current situation we're and in the limited resources. Thank you. I look forward to hearing in our assessor.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you mayor. First of all it was encouraging news when you shared with us the relationships that we are building with the private sector to invest in facilities and jobs here in the city. You talked about a committee, so that you've put together, is it city resources, along with private resources? And is this a full

time assignment for the city employees, or agency employees, as they move forward? Because the time line that you were talking about is very tight. So just if you could elaborate on that a little bit more.

>> Mayor Reed: It's not a committee. It's just a working group of staff, people who need to figure out what we need to do like in the next two weeks kinds of things. To facilitate what the private sector is trying to do. So it's economic development staff, planning staff, redevelopment staff. Member of my staff, meeting with these developers to find out what can we do to convince you to spend $100 million in our city. And then there's a variety of things that they need, city attorney's office is involved so it's really a staff-level, it's not a committee, it's not a task force, it's just let's figure out house to get this investment into the city and we need to figure that out in the matter of weeks not months.

>> Councilmember Campos: Whether we get updates through the City Manager's Macias, Gini monthly report or how will they keep the council apprised of what's going on?

>> Mayor Reed: I think that's most likely it will come through the City Manager's weekly report as there's news to report.

>> Councilmember Campos: Look forward to being able to read that, it sounds very encouraging. I just want to go back to the Ace Charter School and the Mayfair community. I know several of us just came from the Mayfair community and they were sharing some wonderful things as they were talking about building the infrastructure, not only with capital projects but also the infrastructure with people and getting them to be self-sufficient within that community. And schools came up in a few of the testimonials we heard several times, so I just want to just elaborate a little bit more on where we are at with the funding. I know that there are some conversations that still need a little clarifying. And I know that Kip, you're going to come back, or do an info memo on some of those things. But I guess one of the things and I see Greg here so maybe he can clarify a few of the things around this conversation. Right now, from what I understand, is that they need to be able to leverage the redevelopment money with the private sector. And in order for that to happen, it needs to be shown in year -- in the current year, 2010-2011 versus the third year out. And I know that, Kip, you mentioned that you're going to be meeting with

them to understand whether this is really shovel-ready. And I think what would be helpful for me to understand, because I'm not going to be in those meetings, is what are the things that you need to be able towns in order for this project to be shovel-ready? And the reason why I think it's important for us to have that dialogue right now is so there's no miscommunication on what redevelopment needs from their ends to be able to proof this and move it in the current year of 2010-2011.

>> Thank you, Councilmember Campos. There are about five things that we're look at in terms of assessing readiness. One is site control, which they have a current lease with Alum Rock, and we need to understand the terms and conditions of that lease to understand at what penalties our issues are created by deferring the projects out to year 3. Second piece that we need to understand is, the approvals that are required both on the environmental side, CEQA approvals that we understand they'll be acting as their own CEQA agent but making sure we have where we're in the environmental assessment of the site and what environmental clearance will need to be done and how long that will take. Third piece, which we have a fairly clear understanding of, is the scope. They have that fairly well scoped out. We just need to confirm our understanding of the cost of that scope, that it's not actually higher or lower than what they've got. Schedule, and the clearest point on this: They do need our money to lead. The idea is that the $950,000 they'd use in two ways, both to do some of the up-front soft cost, design work and getting ready for the construction and also, to serve as a way of making sure that the other equity and debt financing that comes in can be secured. So they're not able to secure the financing until our financing is security. That's absolutely correct. But what we want to understand is what are the leveled of commitments they have from funders and from the equity they need to raise to do this. And the final piece of course is related to this is the budget which I've mentioned and make sure that we and they are clear that this budget is going to get us from tip to tail on this project. So I've been looking at those pieces. We have conceptually a framework that we believe works for putting our funds potentially in escrow that they can point to, to the banks and other financiers. The biggest question is, will their lease terms with Alum Rock allow them to move this out to year 3 without creating any issues for them.

>> Councilmember Campos: Thank you. And the other thing that I'm not clear on is, we had this in the budget on June 15th. And I need to understand, what was the reasoning on pushing it out to 2012 to 2013. And had

conversations happened between ace on the things that you needed, that maybe triggered why it needed to be put out or was this just an internal decision that was made and I'm not sure what the reasoning is on your end. Redevelopment's end.

>> Harry Mavrogenes: Well, I think Kip had conversations before we prepared the budget and that was the basis of placing it where it is in the budget now.

>> Additionally we were forced to remove from this budget a number of projects that are quite literally shovel-ready. There were a number of capital projects that we were ready to move in the neighborhood, smaller scale improvements to sidewalks, streets, in the order of several hundred thousand dollars, and those were also removed out of this project and those were quite literally ready to go. So this was one of the decisions we had to make, and our assessment at that time primarily due to financing, that this project wasn't shovel-ready at the same level as the other projects which have remained in the budget.

>> Councilmember Campos: First of all, thank you for that. I understand that there are difficult times right now and we have to make some crucial decisions in what are going to be our priorities. And your presentation clearly laid out where the council has agreed to ask you to spend your time in creating jobs and creating development in the city. I'm a strong believer that there's ways to connect all of the dots. And I think as we think about the present time creating jobs and we know that leveraging our money with the private sector, it is 4 to 1, is that correct Greg? 4 to 1. So you could have a win win there at the same time creating construction jobs. You've mentioned design jobs. So there are a lot of wins, by us investing on a whole would be $1 million. So ready up front in some of those dollars. And I think as we think about where California and the city are going, it's about creating jobs and creating the talent here at home so that we can be able to provide the talent for those jobs in the future. So I can't stress enough that this is a very important project. Not only for a few of us on the council here, that really have personally invested our time and energy in the Mayfair community. And I wish I could say I was the only one, but I know that a few of my colleagues here have also invested in that community and making sure that they continue to grow and be self-sufficient. And so the information and the dialogue you are having with ace in the Mayfair community is real crucial as you move forwards. And I think one of the things from what I understand is, as we go

through the -- and you can correct me if I'm wrong mayor -- as we go through the budget process, October 5th is when the budget documents are due; is that correct?

>> Mayor Reed: Yes, that is the schedule.

>> Councilmember Campos: So I will be submitting a budget document on this particular project, because I strongly believe that this will actually get us the best investment for our money. And the other things that I guess I need to ask from the mayor's office, and I don't see Armando here, if you can answer this question. As you receive different budget documents from the councilmembers, what is the internal process that you will be using as you hand those over to the mayor?

>> Mayor Reed: We collect them and we post them but Armando can probably give you more details how we'll do that.

>> I'm sorry, councilmember, how will we be reviewing the budget documents?

>> Councilmember Campos: Right, as we hand them to you, yes, you post them. But there's an internal mechanism that you use to figure out how you recommend amending certain budget documents so they're moved forward or placed in a different line item in the redevelopment budget.

>> Council, a lot of it has to do with the proposal itself and the funding source. So we'll look at the proposal from the council office, a lot of times they're asking for something to be funded, so that funding has to come from somewhere. So we look at what you propose and work with staff and see if it's a valid proposal and we try to work with you as best we can.

>> Councilmember Campos: Okay, that's helpful.

>> Mayor Reed: October 5th to when we get the budget documents to October 15th, I've got to release the budget message so we got to sort out all the pieces and put it back together.

>> Councilmember Campos: And the last thing I would like to say on this budget item is, I would encourage my colleagues to pay close attention to this budget document because it is a win win for I believe the city but I also believe for the city. As I move on to the next item and it's the B.E.S.T. and Harry thank you for clarifying early on in your presentation the B.E.S.T. funding. So Deb this is really a question for you and your staff. As the redevelopment director has made it clear, that funding as we move forward in the 2011, 2012, and 2012 and 2013, will not be available for gang intervention and prevention. What internally are you all looking at in your department for how we will be able to maintain the service level that community based organizations do for this particularly area?

>> City Manager Figone: So what we will do as we're developing the forecast for 11-12 is put our best thinking in conjunction with Harry on what might be available from the redevelopment agency. Right now for planning purposes I understand, given this current snapshot --

>> Councilmember Campos: 4.6 is will not be available.

>> City Manager Figone: The city support will be zeroed out. So what we will do behind the scenes is really push hard on those numbers together and then bring to council alternatives for other ways perhaps that are -- we haven't even thought of right now on how to preserve what we know is important to the council around the B.E.S.T. program. So we will be as innovative as possible. And consider what the council's priorities have been in the past, and it may be a tough decision, but you know, I think we have a good track record at bringing you alternatives. So that's how we would view best. In my mind it just isn't zeroed out because a funding source is gone away. I look at it from a service delivery perspective and will bring you some alternatives to the degree they exist.

>> Councilmember Campos: So I guess, Armando, I want to ask this question. In looking at the priorities that I think you outlined, staff outlined here, could this -- well, I don't know if you can answer this question, maybe it's the mayor who can answer this question.

>> Mayor Reed: Put it out there, and we'll see who can come up with it.

>> Councilmember Campos: Okay. So looking at the priorities, we don't have anything that says in -- in the priorities, I think the principles -- yes, there you go. Looking at whether, and I guess gang intervention and gang prevention really goes under public safety when you think about this. So is it fair to say that we could add a budget Doc around best funding or would that just not meet any priorities when we talk about the budget principles?

>> Mayor Reed: Well you can add a budget document. Ultimately they get B.E.S.T. program as a general funds program, and the arrangement with the agency is to pay for capital projects. That frees up dollars so the general fund has money for B.E.S.T. And whether or not there is any agency funding for that doesn't give you the answer to the question of whether or not there will be a B.E.S.T. program because ultimately the council will have to decide what to could with the General Fund in May or June with the B.E.S.T. program and even if there's zero dollars from the agency I'm not going to give up with the B.E.S.T. program. We'll have to find out how to fund it and how to organize it because it's really important.

>> Councilmember Campos: Okay that answers my question. Harry, did you want to add anything?

>> Harry Mavrogenes: I think we will do our best to continue to work with the Ace Charter School and bring you a logical recommendation. We do not want to lose the opportunity. We don't want them to lose an opportunity they have with the school district, so we will try to find ways to making this work.

>> Councilmember Campos: Thank you.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: Harry, an the budget documents, it talks about on line 9 it excess other and miscellaneous. It was my understanding about the three years that reflected, there are about $60 million of that is anticipated to come from land sales. Is that correct, or in the ballpark?

>> Harry Mavrogenes: I'll let David respond to the specifics. But A lot of this is land sales, some of it's releases, some of it's grants, some of it's other resources. There was a significant amount of grant money in the last one, I know, and we also were very aggressive in lands sales. But David can address this.

>> David Baum: Yes, thank you for that question, Councilmember Chirco. We do have several land sales, you know, with the confidence of what we were able to do last year, selling a number of projects like block 2 and 8 and 101 San Fernando and the Adobe land, we now have expectations of selling land and assets in the next three years of approximately 40 to $50 million. And one of those has already occurred, is the 101 San Fernando, which closed in July. Which was $4.5 million. And so year-to-date, we've received about 29% of the miscellaneous revenue, or about 30% of this year's miscellaneous revenue.

>> Harry Mavrogenes: David, is it fair to say also that this includes the transactions that we have underway, North San Pedro, some of the land proceeds from that or is that separate?

>> David Baum: Let's see -- we do have -- we do have a state grant that we have in our current miscellaneous revenue of about 3.2 million.

>> Harry Mavrogenes: Bud David the proceeds, the lands asset sales includes land that's already contracted to be sold under an agreement, so it's not speculative?

>> David Baum: Yes, we do expect to sell five or six parcels of land over the next about five years that will produce a specific amount of revenue from North San Pedro.

>> Councilmember Chirco: The next question that comes out is, since this is calculated into the revenues, are these funds scheduled to be used for one-time expenses, or are they part of your General Fund needs yearly? Or are they budgeted towards one-time expenses?

>> Harry Mavrogenes: We tend to go, and the policy statement we've made in the past is land sales for land sales. For example, a lot of the money has gone towards the baseball site acquisition which was a major objective. But certainly there's not a restriction on most of those funds going back into other purposes. So it's flexible, but we have tried to target it to continuing to grow the pie, if you will, by buying more land and continuing to work developments.

>> Councilmember Chirco: And I respect that. My concern would be, as you look on the four or five, fifth year out, any percentage of the one-time funds that are used for ongoing expenses, they would only decrease the deficit. Another question I had was looking at your personnel expenses which is thrive, it goes to almost $11 million in 10-11 to just short of 5 million in year 3. So that's like a 50% cut. And I know what you have already gone through, last year and then just recently. Is there a point at which we've cut so much staff from the agency that it becomes ineffective to operate it as a separate entity?

>> Harry Mavrogenes: We believe again the cut that's shown there is somewhat severe. But the agency is sustainable, certainly. We're trying to match up capital projects with operating projects so that we're not upside down. But I think the situation over the three years will actually probably be more positive. But we're showing here a worse case of what could happen, and it definitely is sustainable if you want to maintain an aggressive economic development program in the city.

>> Councilmember Chirco: Oh, I think redevelopment serves a vital function in the city. My concern is that it be sustainable and more able to absorb the highs and lows so to speak that the economy will deliver to the agency. In listening to the concern up here, as funding diminishes, and then I look at the projected reduction to the city from just under 5 million to zero for the next two years, would it be more effective, and more stable

method of delivering services and maintaining the flexibility redevelopment can provide, if you were not an independent organization, but you were a department? I'm -- I don't have the answer. I'm only asking the question.

>> Harry Mavrogenes: I can tell you we've looked at that in the past, and there's no way you can compare the two. We have ultimately more flexibility in the way we are. Your costs are a lot lower as an agency. We don't have the civil service issue and the pension issues that you have on the city sides. The agency can adjust up and down. When I came back in 1998, we were about the size we are now. We were smaller at some point. But we adjust with the economy. That kind of flexibility can't happen in the regular civil service system. So I would strongly urge -- we've looked at this in the past but there's just no comparison to try to do it the other way.

>> Councilmember Chirco: And I certainly respect what you say. Just looking how your health and fiscal -- your fiscal health affects non-redevelopment agencies, and I'm looking at the General Fund, it is an area of concern. Thank you very much.

>> Mayor Reed: I'm going to follow up on a couple of comments by Councilmember Liccardo, about the margin of error or the cushion that we have, if you go to the bottom line of the bottom line on the source and use of funds summary, line 54 of the capital reserves, the ending fund balance, when you get out to year 3 is $3 million. And each 1% of differential in tax increment is $1.5 million. So essentially we have a 2% cushion over three years. That's pretty thin. And that's why I'm going to recommend in my budget message that we go to a mid year review process. We cannot wait until next year, this time, to know whether or not we're hitting the projections, because we don't have any margin for error. So if this year's tax increments are coming in less than what we have here, even though we're projecting a negative 7.89, if it gets worse we're going to have to make is the adjustments quickly. If next year's something other than a minus 2, we'll have to make something adjustments and the sooner we can recognize that the sooner we can make the adjustments. Because really we're operating off of a beginning fund balance and asset sales and those are both limited. And we have to make the decisions as quickly as possible. So this proposed year 1 is really only going to be interim until we get to February and we have to make adjustments and year 2 and year 3 are just for planning purposes. Can't spend money based on

projections, but we also can't wait to find out what the real numbers are before we slow down or defer or postpone things that we might have spent money on. And I think that's the real mystery, of course, is what the future will bring. And we'll hear from Larry Stone in just a little bit. I know he doesn't preticket the future but he's at least the harbinger of truth from time to time. Even though we don't like its. There have been mention of the baseball stadium ballpark project, and that is $460 million of private sector investment that will generate somewhere in the neighborhood of $5 million of revenues for local government, $3 million for the city and the agency and another $2 million for county and school districts. That's why we continue to try to move it forward. That's why we have funding in the budget for this. Because fundamentally we need to grow our revenues so that we can continue the work of this redevelopment agency. If you look back, since 1975, I think, is probably the start-date, the agency has done tremendous things for the City of San José, not just downtown but in all of the redevelopment areas. And has provided substantial support in many ways to the General Fund. And we want to preserve that, protect that, but we are dependent upon economic growth. If you go back to that third year ending balance of $3 million, if we don't get tax increment growth in years 4, 5, 6, et cetera, we're not going to have much left of a program of any kind for the agency. So that is why it is vital to get the revenues flowing in a positive direction. I guess they could flow in a negative direction. Seems like what they're doing now. We have to get the revenues up so we can continue the work and finish the projects that we very much want to do. Whether it's the Ace Charter School or neighborhood projects or ballpark projects, these are high priorities for the council, but we have to have the money in order to be able to do it. And that's why I'm urging that we continue to fund economic development projects, because we can see the direct result of some of those projects in jobs and revenues. And both are important. Revenues are important to us directly, and the jobs are important to our people. And we can point to specific examples of where we have spent money wisely and created both jobs and tax increment and we have to continue to do that. Councilmember Liccardo.

>> Councilmember Liccardo: Yes, mayor. I just wanted to follow up on a question that Vice Mayor Chirco asked. She asked about the three-year miscellaneous revenue which is listed as $72 million in the budget that's line item and she asked whether that represents approximately $60 million of property sales. And David I'm sure you were -- I know you were responding without the benefit of looking down at the documents. But on page III-5, it does list $60.2 million in property sales, it describes that in the last paragraph of that section. So I think this

question was sort of the logical next question. Knowing that we've had great success in this last fiscal year in selling assets in order to pay for the ongoing operating expenses, in fact we've accelerated some of the land sales that we thought we'd be selling in future years. It raises the question as to how much seeds corn we have left to eat. And whether or not there is $60 million in sellable lands in the agency's portfolio that could be readily liquidated over the next three years. And I know that there are concerns about identifying parcels, I imagine there would be concerns about identifying specific parcels if you're involved in transaction now or in the immediate future. But I wonder if there's some way in which the information can be conveyed to the council to give us some comfort to know that we actually really have $60 million of land assets that can be sold in the next three years to keep this agency running.

>> Harry Mavrogenes: We can get you that information.

>> Councilmember Liccardo: Okay, thank you Harry and however that's conveyed to all of us I would be appreciative of it.

>> Mayor Reed: On that point we'll have to be cautious about price tags on any individual asset because we don't want to be giving away our market position or negotiating position or anything else.

>> Councilmember Liccardo: Right, that was certainly in my mind as I ask the question so I recognize that mayor.

>> Mayor Reed: Okay.

>> Councilmember Liccardo: And I guess to try to illustrate the concern, I think Vice Mayor Chirco was hitting on this. If we just add up the obligated payments that are listed in line 49 and add those to our financing and other costs on line 24, in every year of the first three years here we end up spending, without employing a single person in the agency and without expending a single dollar in capital costs of any kind, of any capital project, just on obligated payments and financing alone, we're spending $37 million more than we're making in tax increment in

year one, roughly $26 million more than we're making in tax increment in year 2, and roughly $22 million more than we're making in tax increment in year 3. So I guess what's animating my concern here is that we're running in the red significantly and we're relying enormously on cash reserves and land sales to get this agency through from year to year. I understand that nobody is eager to start talking about shut down. That's not my intention or objective either. But I do think we need to be more seriously focused on that reality than be talking about where we're going to spend the money, whether it's in neighborhoods or economic development or anything else. Seems to me there's a much larger issue that we really need to confront more squarely. Now, taking the agency into the city, bureaucracy is not something anyone's about to eagerly jump into, but I think there are certainly departments and functions that can be more effectively integrated. Seems to me there is a lot of overhead that's carried by the agency on a whole host of functions everything ranging from PR to finance to administration, and it just seems to me, I know there has been some integration, particularly in the City Attorney's office and so forth. But we ought to be more seriously looking at how it is we can share those costs between the city and the agency and take more of those functions in house in terms of the administration of the agency.

>> Mayor Reed: Any other questions or comments from the council? At this point, Harry, additional staff prerequisites or do you want to introduce the county assessor?

>> Harry Mavrogenes: I'd like to introduce Mr. Larry Stone to make his presentation.

>> Mayor Reed: Larry, I don't think we're going to boo you, but we're not going to cheer you, either.

>> County Assessor Stone: You just boo, but you won't smile. Mr. Mayor. Members of the board of the redevelopment agency. Get hooked up here for the PowerPoint.

>> Mayor Reed: We've got a clicker to run the slides if you want that or if you --

>> County Assessor Stone: I'm going to have David do that. Much of my presentation will be to answer some questions. We listened to the tape of the meeting that you had at the study session. So much of the presentation

will be answering questions that were raised by various members of the board. But I want to thank you, Mr. Mayor and members of the board, for this opportunity to address you today. And I also want to introduce Mary Solsing, the Assistant Assessor, and David Ginsborg, the Deputy Assessor, who are here. We'll be happy to answer any questions when we're through, but it would be preferable, seeing I'll be covering a lot of the questions that you asked before, that if you could hold your questions until the end of the presentation, then I'll be happy to answer questions at that time. I'm here today in my capacity as the Santa Clara County Assessor to address and correct some substantial misleading and false information that was provided to the board at your September 7th budget presentation study session and repeated again in Spectrum Economics' 2010 revenue forecast update. In short, I believe you were deliberately misled by Spectrum Economics to place the blame on the Assessor's Office for their disastrous forecast. I do not envy the staff of the Redevelopment Agency. Forecasting the economy is much like trying to forecast the weather. It's not easy, and it's oftentimes not correct. Often data that is needed doesn't exist when you need it, and sometimes making reliable projections is just not possible. Yet, as a former mayor and a councilmember, I fully understand your need for these projections. Fortunately, as my role as assessor, I do not have to worry about making projections. By necessity and by law I must look backward on what has occurred. I cannot and will not make projections of the future. I must follow the market, not lead it. And the assessor is not a revenue agent for local government. My legal obligation is to enroll accurate values up and down based on market data and the marketplace. In fact, assessors are elected for only one good reason that I can think of, and that is to assure that the assessor is independent of those who spend the property tax revenue that the assessments generate. With literally billions of dollars at stake, understanding the laws, the rules, and the practices that govern the property tax system is critical. But once -- what was once a simple -- a very simple system has unfortunately evolved over the last 40 years or so into a complex opaque process. The assessor must understand and correctly apply the California constitution, state statutes, scores of court cases, hundreds of rules, 29 handbooks to assessors, and thousands of letters to assessors that are published by the State Board of Equalization. Thankfully, I have a very talented professional staff, including 42 auditors and 69 appraisers, three quarters of whom hold advanced state certification in their respective disciplines. So it is no wonder that individuals as informed and as knowledgeable as the members of this board sometimes are confused and mystified which the duties of the assessor's office and how our office goes about valuing and ultimately enrolling assessed values. Today my goal is to remove some of that mystery. From the 50,000 foot level, the State Board

of Equalization, which is constitutionally charged with an oversight of all assessor's offices, has stated, and I quote, the county assessor must annually assess all taxable property in the county to the person, business, or legal entity owning, claiming, possessing, or controlling the property as of the lien date January 1st. Every five years, a team from the State Board of Equalization's most seasoned and assessment professionals perform a comprehensive assessment practices survey and audit of my office. Over the six month period of the 12 or so SBE employees who perform -- who come to my office perform their own appraisals of real property and review audits of major corporations. They do this for several hundred randomly selected properties that are representative of the entire assessment roll. The SBE -- the value conclusions are compared to the conclusions of my staff, and the sum of the differences are calculated and statistically applied to the entire assessment roll. Since I've been elected we've had three audits of my office by the State Board of Equalization. The audit, the most recent one, was of the 2008 assessment roll, resulting in a total compliance ratio of 99.81%, a new record. That means we are less than 2/10ths of 1% from being perfect. That is a pretty high quality standard, I would think. The report's executive summary states, in part, overall the majority of the assessor's programs for the assessment of real property are efficient and productive. The assessor handles many of the programs effectively, including budget, staffing, assessment roll changes, and assessment appeals. The chair of the State Board of Equalization, Betty Yee, commented that, quote, the assessor in Santa Clara County is a model for best practices among assessors' offices, end quote. So what happens if the assessor fails to reach at least a 95% compliance ratio? There are severe budgetary consequences. The BOE is authorized to deny our eligibility to receive reimbursement from the state for the cost of administering the supplemental assessment roll of the property tax system. That is no small deal. Over the past two years the average annual reimbursement was $7.2 million, more than one quarter of my entire budget. So the suggestion that our office would use, quote, forced or panicked sales, or worse, quote, no justification at all, is completely baseless and sullies our excellent reputation. It appears Mr. Carlson completely fabricated that statement. There's not a shred of evidence to corroborate his remarks. Our office does not rely exclusively upon forced sales or distressed sales, nor are we blind to market conditions. Mr. Carlson's suggestion that my office, quote, has given them, meaning the major corporations, everything that they'd asked for, end quote, so that I could reduce the number of appeals, as he stated, quote, to get them out of my hair, that's repugnant. In his written report, he repeated the scurrilous and completely false charge when he said, quote, the assessor has a significant incentive to reassess on the low side in order to limit the number of

time-consuming appeals, assessed values are so uncertain, the data is so bad, the process is so complex, that the assessor's office has a huge incentive to reassess low enough to discourage appeals. We do not, as he suggests, go into some back room and negotiate assessed values so as to make these companies with the greatest resources and the greatest resources go away. Were that the case, I would have long ago settled a billion dollar pending appeal that we have going for more -- for more than a year with Applied Materials. Here are the facts: In the first -- in the last three years appeals are up 400%. And the value at risk has doubled. That certainly does not sound like an assessor who's giving away the store. Had Mr. Carlson made any effort to contact our office, which he did not, any assessor in California, the State Board of Equalization, or any MAI appraiser, he would have learned that most commercial properties are not exclusively valued using the comparable sales approach. So what drives the assessment roll up or, in the case of last year, down? Changes to the assessment roll are the result of several major factors. For only the sixth time in 100 years the combination of these economic conditions resulted in the decline of assessed values. In the simplest terms the national economy shrunk, and neither Santa Clara County or California was immune. The result was a dramatic diminution of arm's length real estate transactions and an equally dramatic increase in foreclosures and bankruptcies, a significant drop in consumer optimism and spending, lenders tightening credit so tight that the borrowing almost ceased, unemployment skyrocketing to levels not seen in 50 years. I could go on, but you know all of that. What you don't know, and what you want to know, is what does it -- what does that have to do with the assessment roll? When the inventory of unsold real estate expands, and the number of buyers that qualify for loans shrinks, prices drop. As the assessor, I'm required to value each change of ownership at that property's market value as of the date of the change of ownership. An individual property's highest and best use, its condition and market appeal all determine market value. Not hypothetical applications of stock market trends or REIT indices, as Mr. Carlson's suggested. When a significant number of available properties are not for sale at an arm's length transaction, that is when the preponderance of available properties are owned by banks or mortgage companies, or sellers a half a step in front of foreclosure, price of all transaction drop. Your consultant made much of the fact that most of the sales that we used relied upon distressed sales. Well, duh. Contrary to what Mr. Carlson suggests, when distressed sales drive the market, they cannot be ignored, as he suggests. When the consumer confidence declines and unemployment increases, new construction, purchase of equipment and inventory, and expansion of business deadlines, all of that is bad news. Your consultant asserts that the major owners within the RDA have

substantial cash reserves, and he somehow interprets that to mean that the value of their real estate and their business personal property has therefore not declined. Complete nonsense. The fact that a company does not sell a property does not mean that their property is somehow exempt from market conditions. The fact that a company has cash reserves does not mean that they will hire more staff, rent or purchase or construct more space, or purchase more equipment, desks, and computers. What does this have to do with the 7.3% decline in assessed values between 2009 and 2010 within the San José redevelopment agency area? The answer to that question is everything. Let's take a look at the major components that trigger changes to the assessment roll. These factors include changes in ownership, new construction, the application of the California Consumer Price Index, assessment appeals, the annual assessment of business personal property, institutional exemptions not reimbursed by the State, and of course, Proposition 8 reductions. In prior years major increases to the assessment roll were triggered by changes in the ownership. Real property is assessed at market value whenever there's a change of ownership or new construction. Historically, substantial roll growth was derived from real estate changes of ownership at increased sales prices. This year, instead of properties with very low base year values transferring at higher values, purchase prices were frequently below existing assessments. That factor alone resulted in a decline of assessed values in the San José Redevelopment Agency area of $21.7 million. New construction is another major factor. New construction hit historic lows in 2009 and 2010. At less than $1 billion or one quarter of what was recorded in 2001. County wide, the total number of building permits dropped 25.7%. Assessed values attributed to new construction in the San José redevelopment agency area accounted for a meager growth of $167 million. Another major negative impact on the assessment roll is the change in the California consumer price index. As you know, proposition 13 requires an annual adjustment of assessed values of all real property by the amount of the change in the California consumer price index, not to exceed 2% a year. In 33 years since prop 13 passed in 1978, the California consumer price index has been lower than 2% only six times. Well, this year, the CPI was actually negative at minus .237% for the first time since proposition 13 passed in 1978. As a result, 350,000 property owners with assessed values already lower than their market value received an additional reduction in their assessment. In my case, where my home was assessed at one-fifth what I could sell it for, yet I will receive a $50 reduction in my property tax. Ridiculous. The collective impact of the negative California CPI on schools, cities, the county, community colleges, redevelopment agencies, and special districts is huge and likely to exceed $6 billion compared to what it would have been if it had remained at 2%. It is

especially important to note that our office is not informed of the California CPI each year until the end of December. The fact that the CPI was likely to go to the negative, however, was widely known and reported in the media as long as a year ago. For the San José redevelopment agency area, the change due to the negative CPI resulted in a decrease of $64.3 million. Another major impact was the expected county -- was the unexpected countywide 8% decline in the value of business personal property, which includes machinery, equipment, computers, and fixtures, and things like that. This decline was a direct result of the decrease in the number of businesses which fell by 8.2% from 46,000 businesses to 42,000 businesses in a single year. Business personal property within the RDA declined a whopping $304.3 million last year. Another factor is the assessment appeals and roll changes. Every assessee has the right to file an application for change in assessment if they do not agree with the value placed on the assessment roll. There are only three ways to resolve an appeal. Not one of them involves negotiating a value. Your consultant -- which your consultant would have you believe. The AAB is an independent body appointed by the Board of Supervisors. I am charged with the responsibility to change assessments when errors are discovered whether or not there's an appeal filed. Changed assessments can either result in increases or decreases in assessment roll. But state law mandates us to audit every major business no less than every four years. We conduct 1,000 to 1200 audits in my office every year. Assessment appeals and roll changes to the RDA resulted in a decline of $451.4 million to the San José Redevelopment Agency last year. The value of property owned by charitable institutions such as hospitals, churches, and other religious organizations, private schools, welfare organizations and museums exempted from taxation increased by 14.9 million within the San José redevelopment agency area. And finally, and certainly the issue that has attracted so much interest, is our implementation of Proposition 8 reductions. When the market value of a property declines below the factored base year value, usually the purchase price factored are increased by no more than 2% a year. The assessor is required to temporarily, underscore temporarily, reduce the assessed value to reflect the actual market value. Just as I'm required to reduce the assessed value, however, when the market drops below the assessed value, I'm also required to restore the assessed value when the market improves. In 2010 the number of properties receiving a temporary assessed value reduction as a consequence of the declining real estate market -- we've done this proactively -- climbed 31% to 118,690 properties, further reducing the assessment roll by a total of $23.8 billion. The decline in value due to Prop 8 reductions was the single largest contributor to the decline in the San José Redevelopment Agency's assessment roll between 2009 and 2010. The number of properties granted a

temporary reduction within the RDA increased 33% from 1428 to 1910, and the total value in decline nearly tripled last year from 660 million to 1.8 billion. As the graph has shown, this factor also contributed 1.1 billion to the total decline in the San José Redevelopment Agency property values. In a minute I'll return to this topic and show you the impact of the Proposition 8 decline on each councilmember's district within the RDA jurisdiction. But before I do that I want to let you know that we make every effort to communicate roll growth data as it becomes available to us. I've been repeatedly told by representatives from a wide spectrum of jurisdictions and their consultants that more data is timely available in Santa Clara County than anywhere else in the state. The next graph shows the county wide five-year history of monthly growth for real property. The only factors not represented are business personal property, institutional exemptions, which are not available until just prior to roll close. This graph along with the raw data by agency is provided on the first of every month showing both the dollar and the percentage change. It seems to me the declining roll growth should have been abundantly clear to everybody a long time ago. And while I do not send this graph out to all 55 agencies that receive the monthly report, I have included the San José Redevelopment Agency real property roll growth chart for the past two years. As you can see, there was a sharp decline between January and February, when we corrected the California CPI from a positive of 2% to a negative of minus 2.37%. The decline continued from February through June as we applied the Proposition 8 reductions with another steep decline between June and July as we can closed the roll. I encourage you and your staff and your consultant to pay particular attention to how the new line for the 2011-2012 roll is starting out. This includes the 2% CCPI applied when we opened the roll for input in July, and already we are reporting a 2% decline to real property values for the year, and we're just into it by about three months. But let me return to the analysis of Prop 8 declines applied to properties located within the San José Redevelopment Agency area. Much emphasis is placed upon the declines made to the highest valued properties, if you recall, the top 25 properties within the RDA. However, your consultant showed only part of the picture. As you can see, the RDA jurisdiction lies partially within six council districts with the preponderance of Prop 8 reductions in four of those six. You can also see that the vast majority, 1638 of the 1910 reductions, the ones in red, were applied to residential rather than income properties. From this chart you can see that contrary to Spectrum's analysis not all of the income declines were in the multimillion dollar range. The final chart shows the total decline between 2009 and 2010 by council district. While I hope this overview provides a helpful framework, I'm here today to primarily answer some fundamental questions about how we arrive at assessed values. The fundamental question I wanted to answer

was posed by Councilmember Nancy Pyle at the study session in September in which she asked, is there, and I quote, a formula for the return of property taxes? In other words, what has to happen for property assessments and taxes to be raised? How does the assessor restore assessed values when the market rebounds? The answer to that should not be a head-scratcher, as staff responded a few weeks ago. Contrary to what Mr. Carlson repeatedly asserted, our office has no discretion preparing the assessment roll whether economic conditions are improving or declining, when market values are going up or going down. We must follow the law, and we do. Here's what we state in our Website, with regard to how we value properties in a declining market: Revenue and Taxation Code Section 51 requires the assessor to annually enroll either the property's Proposition 13 factored base year value or its market value as of January 1st. Lest there be any doubt, this concept has been codified in the law, so this is not just a guide to assessors, it is a legal requirement. The next slide illustrates how our office managed properties in a declining market over a seven-year period. The solid blue line represents the factored base year value, basically the market value, factored or increased by no more than 2% in each subsequent year. The dotted red line represents the market value. When the red line falls below the factored base year value represented by the blue line, the red line sets the assessed value. However, when the market value returns or rebounds, and goes above the blue line, the blue line once again becomes the enrolled assessed value. So how do we arrive at market value? I can sure you it is not the simplistic approach asserted by Mr. Carlson to use a comparative sales approach regardless of the type of property, nor is it to use a few, quote, panicked or forced sales akin to, quote, a lottery in determining, quote, aggressive assessments. Nothing can be further from the truth. There are, in fact, three approaches to valuing real estate broadly accepted in the appraisal profession and required by the State Board of Equalization tax rules. The sales comparison approach is a process whereby recent sales of similar properties are compared to the subject property and adjustments are made for dissimilarities such as the date of sales, size, location, condition, and so forth. It is the most common approach for Real Estate that does not typically generate income such as real estate property -- I mean residential property. The income approach is the process whereby income and expenses are estimated to arrive at a net operating income which is then capitalized into values utilizing the rate of return required to attract investors to that specific type of property. This approach is commonly relied on for real estate that is typically purchased for its income-producing capability. And finally the cost approach is a process for estimating the replacement cost of new real estate deducting for depreciation due to physical deterioration, functional or economic obsolescence,

and finally, adding the current market value typically determined through the sales comparison approach. We frequently utilize this when we're valuing partially completed new construction. To suggest that we use limited data, that the data we use is bad, is a complete fabrication. In the State Board of Equalization's Handbook 501, Introduction to Appraising, there is a very clear direction to assessors, and it unambiguously states, quote, in the absence of reliable sales data, the cost and income approaches assume greater importance. If the property is owned for the purpose of obtaining rental income or providing space for an owner-operated business, and if there's an active rental market for similar facilities, the income approach becomes more applicable. However if there's neither comparable sales or rents paid for comparable properties, the cost approach assumes greater weight. If such an approach to value is performed independently in all three cases, the results value of the indicators will define value range and allow rational and defensible final estimate of value. The handbooks are free and available online to the public. To ignore, as Mr. Carlson suggests, we do -- would be to abandon -- if I didn't do -- if I did what he suggested to do, I would be abandoning my constitutional responsibilities. Mr. Carlson's approach to the valuing of real property is what I call the make-believe approach. It is not included in any SB handbook or indeed in any real estate appraisal text or guidelines that I'm aware of. Instead of examining the market value of a particular property, Mr. Carlson would have you look at the profitability of the company and its market capitalization, which is essentially a measure of the total value of the company, not the company's property. So as in the case of Oracle, the market cap between calendar year 2008 and 2009 increased for Oracle by 58%. So Mr. Carlson would have you believe that their real estate holdings should increase commensurately. That's like suggesting that the value of a house that's owned by someone receiving a pay raise or an inheritance would increase while the value of comparable properties in the same neighborhood would remain constant or may fall. That's absolute nonsense. We are legally required to value property fee simple, unencumbered real estate. We appraise the property, not the owner. That is basic common sense. We cannot consider whether the company that owns a particular piece of real estate is successful or failing. Our simple task is to answer the question, if it's offered for sale, what would this specific property bring in the marketplace, no less, or no more. Your RDA staff and consultant indicated that we undervalued cost of building the BEA systems' Oracle tower. They are correct. The cost to build that building in today's market exceeds the assessed or market value. However, what Mr. Carlson appears to ignore is the cost approach to value requires that the appraiser not only establish the replacement cost new of the structure, but also, estimate and deduct the depreciation from all

causes, that is, physical deterioration, functional obsolescence, and economic obsolescence. These factors precisely explain why new buildings are not being built today. When the cost to built exceeds the potential return on investments, building stops. Economics 101. Before I conclude, I want to dispel another important fabrication and misstatement by Mr. Carlson. In his comments he stated that we reduced the values on major corporations, or those described as likely to file an appeal, while ignoring small businesses. Last year nearly half of all condominiums and one quarter of all homes received a proactive reduction to reflect the declining market. In sharp contrast just 3.5% of all commercial and industrial properties county wide received a reduction. In the San José Redevelopment Agency area 272 of the 3,160 commercial and industrial properties received a Prop 8 reduction, while 1,638 of the 3,670 residential properties received a reduction. The reality is that most income properties, big or small, did not receive a proactive reduction. As I told the business journal in August, and I quote, it's embarrassing for me not to be able to do proactive appraisals and reductions on hundreds if not thousands of commercial and industrial properties that I know are overassessed. So sadly, I think you were deceived and misled by a consultant bent on distracting you from his terrible forecast. Our office does not play favorites. We do not cherry-pick properties or companies. I know several thousand property owners must file appeals for each year that their assessment exceeds market value and wait even longer to receive those funds and those refunds. It is terrible for them and even worse for me and the government. It not only costs us more to deal with an appeal, rather than get it right the first time, but it means more refunds later with interest and even less predictability in the property tax system. Of course none of this should be a surprise. Last August I published an annual report which stated, on page 2, quote, while the commercial and industrial market was not nearly as volatile in 2009, it is likely that the full impact of the great recession will be reflected next year. The significant increase in major retail bankruptcies, including Circuit City and Mervyn's and others, will have a sustained impact on the property assessments. Many of Silicon Valley tenants of major office and commercial and retail space were hit hard by the global meltdown, causing significant pressure on rents and absorption of leased space. The worse is yet to come, ladies and gentlemen, with regard to commercial and industrial buildings, and I'm not alone in making this type clear of statement regarding the commercial industrial market. The Business Journal, the Mercury News, the Wall Street Journal and virtually every panel presented by commercial real estate brokers has addressed the same concerns based on the same causes. Your economist missed this, and it baffles me. While Mr. Carlson has wide latitude to pontificate without basis regarding the future of economy, I don't. What I do must be verifiable. It is

inconceivable to me that this agency would continue to retain Mr. Carlson's services. His failure to understand basic property tax is truly beyond belief. To provide a forecast of assessed values, a consultant must have at least a rudimentary understanding of the revenue and taxation code, property tax rules, and State Board of Equalization guidelines. What is truly troubling were his conclusions and opinions about the assessor's office. He calls into question the very integrity and validity of our values. In the report before you he states that the San José Redevelopment Agency still faces an assessment lottery, where the assessor has broad discretion in the face of little hard data, huge demands for downwards reassessments, basing an 8.5 billion of transaction on these 20 transactions, is like -- is like balancing a pyramid on its tip, unquote. Thankfully for all of us, there's no basis to these conclusions. If Mr. Carlson's conclusions had any validity and if there was any reason to believe that we were valuing property without data or rationale, you would have a lot more to worry about than just budget forecast. Quite frankly, I worry about the damage his report may have done to the agency and your reputation with bonding companies. Mr. Carlson's comments demonstrate his lack of assessment experience, skill, and judgment. And I believe them not only to be inaccurate and unfounded but irresponsible. If ever I received a report so replete with misstatements from a consultant or an employee, I would summarily terminate their employment. I'd be happy to answer any questions.

>> Mayor Reed: Thank you, Larry. Do appreciate you coming in and giving us the fact. Appreciate that. I don't know if there are any questions from the councilmembers. I think there are a few. Go to Councilmember Liccardo.

>> Councilmember Liccardo: Thanks, Larry, I appreciate being educated about this process. I think many of us were in the dark and it certainly helped me understand better how assessment works throughout the state. And certainly in this county, and obviously, given your record of success, assessments, that 99.8% figure is awfully impressive. I think it certainly speaks to the reliability of the numbers we're getting. What you refer to as a make-believe approach, this link between the stock market profitability of a company or the market cap of the company and the actual value of the building that company occupies. Here's something that came up over a year ago. In an RDA study session, when I raised the question saying I was challenged a little bit by linking property values too closely to the NASDAQ. It was RDA staff actually stated that, quote, some real estate economists will point to

a direct correlation between, in Silicon Valley, between the NASDAQ, stock market, and the price of real estate. And continuing on through, it says, so if you believe that correlation between NASDAQ stock market and the companies that are represented in a project area, you could theorize that we are going to grow from here and it's not going to dip from here, it's going to back up. Now, that was a time when RDA staff was pushing this 0% projection, and in fact we see something close to negative 8% for that year. This notion of this linking somehow of stock price and real estate value, is this something you've seen a lot of before? Has it ever in your experience been an accurate measure?

>> County Assessor Stone: Well, it has no basis in appraisal in determining value. I think generally speaking, as businesses do better when we went through the dot-com boom, property values were going up, and we were benefiting. Meaning those of us in government. Generally, that might be as a valid statement. But the assessor can't use that. We've got to look at income approach, cost approach, or comparable sales approach. And so just because a company is doing better doesn't mean ha that what they own in terms of real estate or bricks and mortar are going to go up as well. I think generally, that happens, but it has to happen, but in a much broader scope, and it's certainly not an appraisal technique that you can use if you are the assessor.

>> Councilmember Liccardo: Would it be fair to say there would often be a considerable lag time of a couple of years between the time when the company may be doing well and there would be enough employment to be filling offices to actually be creating upward pressure on land prices?

>> County Assessor Stone: I think that generally happens. You know, you may have a law firm for example that occupies an entire floor of a downtown office building. There may be half the number of lawyers on that floor than there was three years ago. But they're still paying the same rent, because their lease doesn't expire until this year or next or whatever. But when it does, they're going to do one of three things, they're going to downsize, they're going to leave, or they're going to get one hell of a reduction on their rent. All of that has pressure, downward pressure. Commercial and industrial property values and assessments tend to lag residential because of existing leases and so forth. So that's where I say the worst is yet to come, because we didn't see much of a reduction in commercial and industrial properties except for certain types, like hotels and so forth that have been suffering

longer. But we're seeing it now, and I think you're going to see it for at least a year or two. To what extent, that's a projection that I don't make.

>> Councilmember Liccardo: Right. And when you say the worst is yet to come, can we go to that slide where you showed the first two months of this fiscal year relative to the other two years, I think it was a green line that was pretty ominous. Looked like it was about 2% drop in just the first two months. So as we look at 2010-11 obviously we saw very sharp drop there in '09-10 in the second half of the year. I'm assuming that's reflecting prop 8 appeals, primarily or have I misinterpreted that?

>> County Assessor Stone: The biggest cause of that is prop 8 but not the only cause. The California consumer price index is part of that because we don't load that in until after -- you know we didn't change the plus 2% until after we received that information, which was the beginning of the year. So all of the factors I mentioned. But the biggest factor by far for you and I suppose most other people is the prop 8 reductions. And because the lien date is on January 1st and we have to close the roll by law on July 1st we're doing the prop 8 reductions during that time frame. So that's why you see that tremendous curve going down there. You can't value property until after January 1st.

>> Councilmember Liccardo: Do you have any leading indicators, that is, from prop 8 appeals, the number of prop 8 appeals that have been filed that would indicate to you whether we're going to see a similar or not kinds of hit as a result of prop 8 appeals?

>> County Assessor Stone: In 2009, we're used to doing on average during good times and this is clearly not normal times.

>> Councilmember Liccardo: No.

>> County Assessor Stone: But we're doing 3 to 4,000 appeals a year. The highest number of appeals in the 16 years that I've been the assessor occurred in 1996 until this last year and that was 7300 appeals. Now we have

far fewer appeals in Santa Clara County and historically have forever than any major county in the state. In 1996, we had 7300 appeals. L.A. had 90,000 appeals. Orange County had 48,000. San Diego 28,000. We had 7300. Surprisingly, to us, because we reduced the assessed value proactively, on 97,000 properties last year, we got 12,000 appeals. Okay, 12,000 appeals. We made some changes in the way we -- significant changes in the way we did proactively reductions. And it appears, we don't know yet because you file your appeals with the clerk of the board and it takes probably toward the end of the year before they even start to come down to us. It appears that our appeals this year may be down by as much as a third. Which is good news. The question for you folks is, how much of those appeals number drop is routine residential stuff, tract home and condominiums and so forth, and how much of them are real property? Because the average reduction this last year for a residential property was 175,000. But the average reduction for a commercial and industrial property was 3.6 million. So if you have more commercial industrial properties, it's apparent that there's going to be more value. About half of the appeals last year were commercial and industrial. And business personal property. Which is a big part of any Redevelopment Agency because that's where your -- that's where your companies are. And about half were residential.

>> Councilmember Liccardo: Okay.

>> County Assessor Stone: I'm not sure that answered your question.

>> Councilmember Liccardo: No, that gave me a good idea. I think just as we look at an individuals property, and primarily we're dealing with of course commercial and industrial when we're talking about RDA tax increment, if there's been a Prop 8 appeal, successful appeal, the valuation has been set at much lower level, as I understand, what you've said is, the number doesn't suddenly go right back up the next year, it only climbs based on what you understand the market to be telling you?

>> County Assessor Stone: Right, it could go down further, and does.

>> Councilmember Liccardo: Right, okay.

>> County Assessor Stone: I should say this. That we -- only 2% of all assessment appeals filed in Santa Clara County actually end up in a formal hearing. About half of them -- about 60% of them go away because people don't understand the system, but about 38% of them or so actually get some kind of a reduction, fairly significant in these times. And we retain about 90% of all the value in dispute in our -- in fact, more than 90% of all the value in dispute on our appeal. So we do a good job of defending our values because we do a good job of getting accurate values on the roll to begin with. That's what irritates me so much about your consultant's report because I know what we're doing and it's been confirmed every five years about the state boards of equalization.

>> Councilmember Liccardo: I share your concerns about the report, and certainly we need to have consultants who understand assessed value, or they shouldn't be giving us recommendations.

>> Mayor Reed: I have a question on this chart. We're going to start doing a mid year review of the agency, I believe, and that would take place in February. So I'm trying to figure out whether things are going better or worse. If I look at February of '9-10 I know it's worse than February of '8-9 by look at your chart.

>> County Assessor Stone: Uh-huh.

>> Mayor Reed: How much of that information would have been available in February, or is this all looking backwards?

>> County Assessor Stone: Mary, why don't you come here. I'm going to have --

>> Mayor Reed: Because we're going to try to track this and make decisions along the way. And if things are looking worse, that's one set of decisions that are looking okay, or better, it's another set of decisions to be made. But I don't know how much information we're really going to have in February. I just don't want to wait for radio year from now looking at this and say whoops, we were off by five points.

>> The data that the charts are based on is presented to the San José RDA and, indeed, 54 other agencies some every month at approximately the first of the month. We will be preparing those reports tomorrow and barring any problems they will be distributed before cloves of business tomorrow, showing the October numbers. Now, the chart that you have before you, we actually include that without the indications of where the CCPI came in or the two prop 8s came in. But we present that monthly chart just like that for overall county growth, to all of those 55 agencies. The following chart which is just the San José RDA, we presented just for this hearing today. We simply don't have enough staff to prepare 55 charts for each of the 55 agencies. However, the agencies do receive the raw data for their specific agencies, that these charts are based upon, and it's a fairly easy thing to put that into an Excel spreadsheet and prepare the charts on an individual basis.

>> Mayor Reed: So if I could just follow up on that. So you've got the beginnings of 2011 here if I understand this chart.

>> That's correct.

>> Mayor Reed: That's the August-September number.

>> Yes.

>> Mayor Reed: So when I get over to February I will be looking backwards at everything that's happened through the end of January.

>> Everything that has been enrolled. Now, sometimes you know you have a completion of construction that may have incurred in January, and it doesn't get enrolled until several weeks or several months later, just because of the way our work cycle goes. But physical show everything that has -- all the real property values that have gone to the assessment roll. One of the important things to remember about the monthly reports is, we do not have the ability to report to you what's happening with business personal property growth, nor do we have the ability to report to you what happens with institutional exemptions. And we don't have the ability really to tell you much

about what is going on with regard to Proposition 8s until we get down to about the April and May time frame when we've had a chance to analyze all of the data that was available as of January 1 and the two months following that so that we can begin preparing those appraisals. I think that the chart that's just before this one --

>> Mayor Reed: If you back up to that chart, I have another question. That chart.

>> And we actually give this, I think it's about a ten year report on the one that actually goes out, we've cleaned it up and made it a little bit simpler for this presentation. But when you look at that I think the most important information in this is what is the current year doing compared to the other years. And if it's very similar to another year what I look at when I'm looking at the county wide figures is, can what did we end up with the roll -- what was the ending roll growth or roll change from February of this year to whatever year is most similar in terms of the shape of that graph. And it gives me a reasonable thumbnail, reasonable way to estimate where the whole roll might be going.

>> Mayor Reed: If I look at this chart and I'm thinking February, looking at previous years, February would have looked -- okay, you didn't fall off the cliff until March there, and I don't know what year that is, '09 I guess --

>> County Assessor Stone: February was, around in there was when we unloaded the 2% which we load on at the beginning of the year, and dealt with the minus 2.37%. Every indication is, you know, if California CPI is calculated from October to October. But we don't get the number until usually the end of December or the beginning of the year. And that, every indication is, it's not done yet, that it's going to be negative again this year. So you can start out right now acknowledge I think, you know, if you are trying to plan and eliminate the 2% California CPI, how much it may go negative, but who knows. It's not looking good.

>> Mayor Reed: Back to my looking back in February. I might be looking back at a line that's flat. But knowing a 2% is going to get unloaded, I know it's going to take a 2% drop. I know that in February because you've said by the end of January you pretty much figured that out.

>> County Assessor Stone: Right.

>> Mayor Reed: Is that right, okay. Well, I'm just trying to figure out when we take a look back, when we make decisions, and February seems to be the target date for us. Any other questions? I'm sorry, let me get back to the -- Councilmember Oliverio.

>> Councilmember Oliverio: Thanks for the presentation, and if you need secondary employment, maybe feel free to have any future assessments on us, thanks.

>> Mayor Reed: That was it? I'm not sure it that was a compliment or what, Larry. You have to take that as face value. I think that was a compliment.

>> County Assessor Stone: I know him well enough.

>> Mayor Reed: Okay, any other questions by of the assessor before we come back for further discussion of our budget in front of us? Thank you very much for coming in. We appreciate the enlightenment.

>> County Assessor Stone: Thank you very much for the time. I really appreciate it.

>> Mayor Reed: Thank you. Back to council discussion of the proposed budget discussion, questions or anything else. I do have one request from the public to speak.

>> Councilmember Constant: Mr. Mayor, I'm sorry, Larry, could we get this PowerPoint sent to us?

>> County Assessor Stone: Sure.

>> Councilmember Constant: Thanks. And I'm still not sure how you feel about it, but maybe when I go through the PowerPoint, I'll figure out your real viewpoints on this.

>> Mayor Reed: You can send it to us electronically, and we'll circulate it, if you can get that to the agency staff. Let's take the public testimony at this point, Greg Lipman.

>> I'm an agency staff, thank you for this opportunity to speak. I want to specifically thank Mr. Mavrogenes and Mr. Harkness for all their work on the project so far. They certainly spent a lot of time and energy on it. Just to quickly respond to a couple of things that came up over the course of the discussion. All the information that has been requested by the Redevelopment Agency will be received by them, first thing on Monday morning. I do want to add one additional point that didn't come up in the conversation and that another aspect of the discussion has been that ace is very, very comfortable with the notion, first proposed by the RDA, that no city money at all will be used until the entire project is fully financed. So this is while as Mr. Mavrogenes said, it is the first money in, there will be no money in until we can demonstrate to the Redevelopment Agency to their satisfaction that the entire project is fully funded. So it is at this point all about leverage, rather than about spending that money in order to go and funds financing. And just to quickly summarize some of the you know what the main gist of that information is going to provide for the Redevelopment Agency, is that putting this project into year 3 is indeed too late, given the constraints of our deal with the Alum Rock School District. As a matter of fact, mid year of year 1 would be too late. Given how we've structured the lease with them. And so I say that just as a way of illustrating that this project truly is ready to move forward immediately, and we very much appreciate the energy and the time that's been spent by city staff on this, and we look forward to moving forward once all the information is in hand on Monday. Thank you very, very much.

>> Mayor Reed: That is the only card I have requesting time to speak, and so come back for any council questions that we missed. If not, we will have a public hearing on this, to take additional testimony from the public on the evening of October 5th. Probably put that first in the evening on that agenda. So until then we'll be working on it. That concludes our meeting. We're adjourned.