COUNCIL AGENDA: 06/28/16
ITEM: 9.4

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR
CITY COUNCIL AND
SUCCESSOR AGENCY BOARD

FROM: Julia H. Cooper
Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: June 9, 2016

Approved D. DSyl

Date 6/16/16

SUBJECT: ACTIONS RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND LOAN BETWEEN THE SUCCESSOR AGENCY AND THE CITY

RECOMMENDATION

a) Adopt a resolution of the Successor Agency Board:

1) Acknowledging that the $52 million portion of the Supplemental Education Revenue Augmentation Fund (SERAF) Loan Agreement between the Successor Agency and the City of San José is not an enforceable obligation; and
2) Removing this loan from the Successor Agency financial statements.

b) Adopt a resolution of the City Council:

1) Removing the SERAF loan receivable from the City's financial statements in the Low and Moderate Income Housing Fund.

BACKGROUND

On May 26, 2016, the Oversight Board held a meeting to determine the long-term status of the SERAF loan originally entered into between the former Redevelopment Agency and the City of San José. The Board adopted a resolution including the following actions:

a) Approving the repayment schedule for the 2011 Housing Fund Loan in the amount of $12,815,668 plus accrued interest, a housing asset of the Successor Housing Agency, pursuant to Health and Safety Code Section 34171 (d) (1) (G).

b) Approving a partial reinstatement of the Loan Agreement between the Successor Agency to the Redevelopment Agency of the City of San José and the City of San José related to

SERAF reinstating the Inter-Fund Loan of $10,000,000 originally made by various special funds ($5 million Sewage Treatment Plan Connection Fee Fund, $3 million Subdivision Park Trust Fund, and $2 million Ice Centre Revenue Fund) and subsequently repaid by the City's General Fund, and revising with terms and repayment schedule to conform to the requirements of Health and Safety Code Section 34191.4.

c) Determining that the remaining portion of the 2010 SERAF loan, not otherwise reinstated by the Oversight Board herein, in the amount of $52 million, is not an enforceable obligation and directing the Successor Agency to remove that portion of the 2010 SERAF loan from its financial statements.

The staff report to the Oversight Board supporting this action is included for reference (Attachment A).

ANALYSIS

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB X1 26. With narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB X1 26. However, with the approval of AB 1484 in June 2012 and SB 107 in September 2015 (collectively, AB X1 26 as amended by AB 1484 and SB 107 shall be referred to herein as the "Dissolution Legislation"), some loans may be deemed an enforceable obligation of the Successor Agency contingent upon 1) a finding by the California Department of Finance (DOF) that certain specified audits of the Successor Agency have been completed, and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of the Dissolution Legislation, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

Based on the action taken by the Oversight Board on May 26, 2016, the $10 million portion of the SERAF loan is reinstated, however, the $52 million portion is no longer considered an enforceable obligation and must be removed from the City's financial statements.

The Successor Agency Board must take action to remove the $52 million portion of the SERAF loan from its financial statements for the reporting period July 1, 2015 to June 30, 2016. Additionally, the City needs to remove the corresponding loan receivable from the City's financial statements.

EVALUATION AND FOLLOW-UP

Payments on reinstated portions of the SERAF loan will be placed on future Recognized Obligation Payment Schedules. This report will be forwarded to the Successor Agency Board for approval on an annual basis.

COORDINATION

This memorandum has been prepared by the Finance and Housing Departments in coordination with the City Attorney's Office and the City Manager's Budget Office.

COST SUMMARY/IMPLICATIONS

There are no cost implications to this recommended action.

CEQA

Not a Project, File No. PP10-067(b).

/s/
JULIA H. COOPER
Director of Finance
SARA, Chief Financial Officer

/s/
JACKY MORALES-FERRAND
Director of Housing

Attachments:

- Attachment A – Oversight Board Memorandum and Attachments
- Attachment B – Oversight Board Resolution #2016-05-1121

For more information, contact Julia H. Cooper, Director of Finance, at 408-535-7011.

ATTACHMENT A

OVERSIGHT BOARD AGENDA: 5/26/16
ITEM: 6.2

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ

MEMORANDUM

TO: OVERSIGHT BOARD	FROM: JULIA H. COOPER JACKY MORALES-FERRAND
SUBJECT: SEE BELOW	DATE: MAY 20, 2016
APPROVED: D. DSyL	DATE: 5/20/16

SUBJECT: APPROVAL OF PARTIAL REINSTATEMENT OF SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND LOAN AGREEMENT BETWEEN THE SUCCESSOR AGENCY AND THE CITY OF SAN JOSÉ

RECOMMENDATION

Adopt resolutions:

a) Approving the repayment schedule for the 2011 Housing Fund Loan in the amount of $12,815,668 plus accrued interest, a housing asset of the Successor Housing Agency, pursuant to Health and Safety Code Section 34171 (d) (1) (G).
b) Approving a partial reinstatement of the Loan Agreement between the Successor Agency to the Redevelopment Agency of the City of San José and the City of San José related to the Supplemental Education Revenue Augmentation Fund (SERAF) reinstating the Inter-Fund Loan of $10,000,000 originally made by various special funds ($5 million Sewage Treatment Plan Connection Fee Fund, $3 million Subdivision Park Trust Fund, and $2 million Ice Centre Revenue Fund) and subsequently repaid by the City's General Fund, and revising with terms and repayment schedule to conform to the requirements of Health and Safety Code Section 34191.4.

Either

c) Directing staff to prepare a loan agreement to reinstate the 2010 Housing Fund Loan, $40 million portion of the SERAF loan made by the Low and Moderate Income Housing Fund, with terms and repayment schedule to conform to the requirements of Health and Safety Code Section 34191.4.

Or

d) Determining that the remaining portion of the 2010 SERAF loan, not otherwise reinstated by the Oversight Board herein, in the amount of $52 million, is not an enforceable obligation and directing the Successor Agency to remove that portion of the 2010 SERAF loan from its financial statements.

BACKGROUND

On July 28, 2009, the Governor signed the 2009-2010 State Budget, including ABX4 26, which required redevelopment agencies in the State to make payments to a Supplemental Education Revenue Augmentation Fund ("SERAF") for 2009-2010 and 2010-2011. In May 2010, $62,247,530 was paid to the state for the SERAF payment. Of this this amount, $62 million was borrowed from the City. The former Redevelopment Agency of the City of San José (Agency), the City of San José (City), and the City of San José Financing Authority, entered into a Loan Agreement pursuant to which the Agency borrowed a total of $74.8 million from various City sources in order to pay the State mandated SERAF payments of $62.2 million in May 2010 and $12.8 million in May of 2011. The Loan Agreement was amended in May 2011 to allow the City to change the source of payment from commercial paper to cash available in the Low and Moderate Income Housing Fund.

The SERAF loan was made from various sources available to the City which are summarized in the table below, the Loan Agreement is included as Attachment 1 to this memorandum.

2010 SERAF LOAN	$62,000,000
Inter-Fund Loan	
Sewage Treatment Plant Connection Fee Fund	$5,000,000
Subdivision Park Trust Fund	3,000,000
Ice Centre Revenue Fund	2,000,000
Subtotal Inter-Fund Loan	$10,000,000
2010 Housing Fund Loan	$40,000,000
Commercial Paper	$12,000,000
2011 SERAF LOAN	$12,815,668
2011 Housing Fund Loan	$12,815,668
Total SERAF Loans	$74,815,668

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB X1 26. With narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB X1 26. However, with the approval of AB 1484 in June 2012 and SB 107 in September 2015 (collectively, AB X1 26 as amended by AB 1484 and SB 107 shall be referred to herein as the "Dissolution Legislation"), some

loans may be deemed an enforceable obligation of the Successor Agency contingent upon 1) a finding by the California Department of Finance (DOF) that certain specified audits of the Successor Agency have been completed, and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of the Dissolution Legislation, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

On August 1, 2012, the City of San José, as the Successor Housing Agency, submitted to the Department of Finance a *Housing Asset List*, as required by Health and Safety Code Section 34176 (a) (2). Included in this report on Exhibit G, item #2 was the SERAF Loan 2 in the amount of $12,857,655 (included accrued interest as of August 1, 2012). This loan, the 2011 Housing Fund Loan, was determined to be a housing asset and was transferred by the Agency to the City acting as the Successor Housing Agency. The transfer of the 2011 Housing Fund Loan as a housing asset was subsequently approved by DOF as described below.

On October 5, 2012, the County of Santa Clara Auditor-Controller issued an Agreed-Upon Procedures (AUP) audit of the Redevelopment Agency of the City of San José. Pursuant to Health and Safety Code Section 34182, the County Auditor-Controller completed an AUP audit to determine, among other things, the assets and liabilities of the former redevelopment agency and to determine both the amount and the terms of any indebtedness incurred by the redevelopment agency. This report concluded that the $52,000,000 loaned from the Housing Department to the Redevelopment Agency as a part of the SERAF loan, was not an enforceable obligation of the Agency, determining that since the underlying funds used to make that portion of the 2010 SERAF Loan ($40 million of 2010 Series C Housing Bonds and $12 million from the City's Commercial Paper program) were already transferred to the Agency and listed on the Agency's Recognized Obligation Schedule for repayment, the repayment of such amount to the City would constitute a duplicate liability (Attachment 2). This amount was not recommended to be included as an ongoing obligation to the City. The AUP did not dispute the Inter-Fund Loan of $10 million or the 2011 Housing Fund Loan of $12.8 million.

On February 15, 2013, the DOF responded to the City's August 1, 2012 submission of the Housing Asset List. DOF indicated that the $56 million portion of the SERAF loan ($12 million Commercial Paper, $40 million Housing Fund Loan plus fees and accrued interest) was not a housing asset eligible for transfer to the Successor Agency (Attachment 3). DOF approved the 2011 Housing Fund Loan of $12.8 million as a housing asset.

The DOF issued a Finding of Completion to the Successor Agency on August 30, 2013.

On September 11, 2014, the Successor Agency requested that the Oversight Board reinstate the Inter-Fund Loan ($10,000,000 portion of the SERAF loan) as an enforceable obligation. The staff report can be found at the following link: http://www.sanjoseca.gov/DocumentCenter/View/34771. During the discussion of this matter, Boardmember Guthrie provided a red-line version of the proposed resolution (Attachment 4) for this action. The recommendation made by Boardmember Guthrie included reinstatement of the $10,000,000 portion of the SERAF loan, but included language whereby the Oversight Board deemed that "in restoring the $10 million "Inter Fund Loan" portion of the SERAF Loan and in paying all housing variable rate bonds and commercial paper borrowings as enforceable obligations, and in honoring the $12.6 million 2011 SERAF Loan as an enforceable obligation, the Agency conclusively fulfills its obligation in full to pay for any and all amounts advanced for the SERAF payment to the State". The item was deferred to a future Oversight Board meeting so that staff could evaluate the implications of the language contained in Boardmember Guthrie's amended resolution and to further discuss the implication of the recommended dual action.

ANALYSIS

The purpose of this recommendation is to address all outstanding issues related to the SERAF loan agreement between the City and the Successor Agency. Each component of the SERAF loan has been treated independently and has distinct action items necessary to address outstanding issues. The following section discusses each component and recommended actions.

2011 SERAF LOAN

2011 Housing Fund Loan

Pursuant to Section 34176, the 2011 Housing Fund Loan ($12,815,668) was transferred as a housing asset from the former Redevelopment Agency to the City as the Successor Housing Agency. Pursuant to Section 34171 (d) (1) (G), a loan schedule must be approved by the Oversight Board. Thereafter, the loan will be placed on the ROPS for payment in future years. The following is the proposed payment schedule for this loan:

June 2017	June 2018	June 2019
$4,200,000 + accrued interest	$4,200,000 + accrued interest	$4,415,668 + accrued interest

The Successor Agency is recommending the 2011 Housing Fund Loan be made in three payments beginning in 2017; however, repayment will not occur until there are sufficient tax revenues flowing through the Redevelopment Property Tax Trust Fund after payment of debt service and other outstanding enforceable obligations. Since these funds were borrowed from the Low and Moderate Income Housing Funds, pursuant to Section 34191.4 (b) (3) (B), this loan will be repaid prior to the Inter Fund Loan.

2010 SERAF LOAN

Inter-Fund Loan

The Inter-Fund Loan was originally funded with cash from special funds ($5 million Sewage Treatment Plan Connection Fee Fund, $3 million Subdivision Park Trust Fund, and $2 million Ice Centre Revenue Fund) in compliance with the City's Interfunds Loan Policy. Under the City's Interfunds Loan Policy, "*Interfund loans must have an identified repayment source and date; include an interest component that equals the investment earnings the fund would have received had the loan not occurred; and be immediately due and payable if needed by the fund that provided the loan"*. Therefore, given the uncertainty of the timing of repayment of the Inter-Fund Loan, the City elected to repay the special funds with funds from the City's General Fund. This repayment occurred during 2014-2015 prior to the original loan repayment date of June 30, 2015. This action transferred the Inter-Fund Loan asset of the $10 million from special funds to the City's General Fund.

City and Successor Agency staffs are recommending that the Inter-Fund Loan portion of the SERAF Loan, in the amount of $10 million, be reinstated at this time. To comply with provisions of the Dissolution Legislation, any reinstated loan must be approved by the Oversight Board, upon a finding by the Oversight Board that the loan was for legitimate redevelopment purposes. The reinstated portion of the loan also needs to be revised to conform to statutory criteria for interest calculations and repayment priorities. The new terms of the Inter-Fund Loan include:

- Repayment Schedule – the proposed repayment schedule is the following:

June 2017	June 2018	June 2019
$3,300,000 + accrued interest	$3,300,000 + accrued interest	$3,400,000 + accrued interest

- Interest Rate - The interest rate shall be 3% simple interest recalculated from the date of the origination of the loan as approved by the redevelopment agency on a quarterly basis pursuant to Section 34191.4(b) (3).
- Parity with Taxing Entities - The repayment of the Inter-Fund Loan, shall not, in any fiscal year, exceed an amount equal to one-half (1/2) of the increase between the amount distributed to taxing entities in that fiscal year and the amount distributed to taxing entities pursuant to Section 34183(a)(4) (*i.e.*, residual amounts) in the 2012-2013 base year. The amount distributed to taxing entities pursuant to Section 34183(a)(4) in the 2012-2013 base year was $0. To the extent that this provision conflicts with the proposed repayment schedule, this provision shall apply.

- Subordinate to Housing Loans – The Amended Loan Agreement will be subordinate to any outstanding amounts due to the Low and Moderate Income Housing Fund pursuant to Section 34176(e)(6).
- Housing Fund Portion - Twenty percent (20%) of any repayment made pursuant to this Agreement shall be transferred to the City's Low and Moderate Income Housing Asset Fund.

Commercial Paper Loan

The original SERAF loan agreement indicated that $12 million in commercial paper would be issued by the City to fund a portion of the 2010 SERAF payment and an additional $12.8 million would be issued to fund the 2011 SERAF payment. The loan agreement was amended to limit the issuance of commercial paper to the 2010 SERAF Loan. All interest and fees associated with the principal amount of $12 million over the first two years were capitalized and added to the principal, totaling $14,227,000. Since 2012, the interest costs were included on the ROPS (Line#56) and paid quarterly.

On August 27, 2015, the Oversight Board approved a repayment schedule for the principal and interest of this loan. Payments in the amount of approximately $4,750,000 will be made in 2016, 2017, and 2018 respectively. The full report can be viewed at the following link: http://www.sanjoseca.gov/DocumentCenter/View/45780. The underlying financing mechanism of commercial paper is being repaid. There are no outstanding issues related to this portion of the SERAF loan.

2010 Housing Fund Loan

Prior to dissolution, State redevelopment law required that, if the Low and Moderate Income Housing Funds were used to make SERAF payments, the Low and Moderate Housing Fund must be repaid. Specifically, Sections 33690 (c)(2) and 33690.5 (c)(2) of the Health and Safety Code state that "funds borrowed pursuant to this subdivision shall be repaid in full…" Furthermore, the Dissolution Legislation added Sections 34272 (d)(1)(G) and 34176(e)(6)(A), which also require that the Low and Moderate Income Housing Funds borrowed to pay SERAF must be repaid to fund affordable housing activities in accordance with Community Development Law.

The County Auditor Controller determined that the Housing Department funded the 2010 Housing Fund Loan ($40 million) with bond financing. Based on this determination, the State Department of Finance concluded that the loan is not an enforceable obligation, and that repaying the Low and Moderate Income Housing Fund would result in a double payment.

The City does not concur with this determination. The Housing Department used cash collected in 2009 and 2010 through program income to make the 2010 Housing Fund Loan; bond funds were not used to fund the SERAF payment, but rather were used to

refund a Line of Credit, to refinance two bond issues, and to fund affordable housing developments that had funding commitments.

While the Housing Department was able to continue to administer its rehabilitation and first-time homebuyer programs, the payment of SERAF had a direct impact on the Department's project development program. New affordable housing construction projects require considerable subsidy. As a result of the Agency borrowing cash from the Housing Department, money was not available to fund the construction of new affordable housing that was in the development pipeline in 2010. Over the past six years, the Housing Department has worked extremely hard to find other funding to support the development of the pipeline projects. Many of the projects waited years for financing, delaying the availability of affordable apartments and projects that would have been funded still await financing. Approximately $37 million is needed to fund the three remaining projects from the 2010 development pipeline.

The following are developments that were in the development pipeline and that were delayed as a result of the SERAF payment. If the housing funds were not used to pay the Agency's SERAF obligation, another $40 million would have been available to finance much needed new affordable apartment – the loss of the use of these funds has resulted in a loss of approximately 364 affordable apartments.

Project/Developer	City Commitment 2010	Current Status
Willow Glen Woods For Sale	Exclusive Negotiations for City-owned land	Project was unable to proceed due to lack of funding. The City needs to release a new RFP. It is anticipated that approximately $10-$15 million in funding is needed.
Willow Glen Woods Family	Exclusive Negotiations for City-owned land	Project was unable to proceed due to lack of funding. City released an RFP in 2016 to select a developer for the project. Project needs $13 million to construct.
Leigh Avenue - Seniors First Community Housing	Application Submitted in 2008 Developer secured land in 2007.	Project remains unfunded. Needs $9 million to fund 64 affordable apartments.

Due to the lack of funding available in 2010, the following affordable housing projects were delayed for over two years or more: Ford & Monterey, Rosemary Gardens Senior, Rosemary Gardens Family, San Carlos Senior, Markham Terrace, Orvieto, Vermont House, and Second Street Studios.

City and Successor Agency staffs are recommending that the Oversight Board direct staff to prepare a loan agreement to reinstate the 2010 Housing Fund Loan preserving $40 million in funds for future affordable housing programs. In the alternative, the Oversight Board has the option, consistent with the recommendation proposed by Board Member

Guthrie, to make a determination that the remaining portion of the 2010 SERAF loan, in the amount of $52 million ($40 million 2010 Housing Fund Loan and $12 million Commercial Paper Loan) is not an enforceable obligation and direct the Successor Agency to remove that portion of the 2010 SERAF Loan from its financial statements.

FINDINGS

As stated above, to comply with provisions of the Dissolution Legislation, any reinstated loan must be approved by the Oversight Board, upon a finding by the Oversight Board that the loan was for legitimate redevelopment purposes. On July 29, 2009, the Governor signed the 2009-2010 State Budget, including AB4x26, which required redevelopment agencies in the State to make payments to SERAF for 2009-2010 and 2010-2011. That legislation also added Section 33020.5 to the redevelopment law, adding to the definition of redevelopment "payments to school districts in the fiscal years" 2009-2010 and 2010-2011. As such, the law provides that the purpose of the SERAF Loan, to make the required payment, is a legitimate redevelopment purpose.

COORDINATION

This item was coordinated with the Finance Department, the City Manager's Budget Office and the City Attorney's Office.

/s/	/s/
JACKY MORALES-FERRAND	JULIA H. COOPER
Director of Housing	Chief Financial Officer

Attachments:

1. Loan Agreement
2. County Issued Agreed-Upon Procedures Audit
3. Department of Finance Letter dated February 15, 2013 Re: Housing Assets Transfer Form
4. Red-Line Resolution Language proposed by Board Member Guthrie

FIRST AMENDMENT TO LOAN AGREEMENT BY AND AMONG THE CITY OF SAN JOSE, THE CITY OF SAN JOSE FINANCING AUTHORITY AND THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND

This First Amendment to Loan Agreement ("First Amendment") is made and entered into this 10th day of May, 2011, by and among the City of San Jose, a municipal corporation ("City"), the City of San Jose Financing Authority, a public body, corporate and politic, duly organized and existing under the laws of the State of California ("Authority"), and The Redevelopment Agency of the City of San Jose, a public body, corporate and politic ("Agency").

RECITALS

WHEREAS, the Agency is presently engaged in redevelopment activities in various redevelopment project areas; and

WHEREAS, on July 29, 2009, the Governor signed the State budget, including AB4x26 which requires redevelopment agencies in the State make payment to a Supplemental Educational Revenue Augmentation Fund ("SERAF"), and

WHEREAS, the Agency's SERAF obligation is $62,247,530 in FY 2009-2010 and approximately $12,815,668 in FY 2010-2011; and

WHEREAS, AB26x4 and subsequent clarifying legislation, allows the Agency to make its SERAF payments with funds borrowed from the Low-Mod Housing Fund, as long as the Agency finds that there are insufficient other moneys to meet the SERAF payment requirement, and such borrowed funds are repaid within five years from date of borrowing; and

WHEREAS, on February 23, 2010, the Agency Board and City Council found that due to insufficient other monies, the Agency would need to pay the SERAF, in part, with funds borrowed from the Low-Mod Housing Fund and approved a plan to finance the SERAF payments through a loan from the Low-Mod Housing Fund, and from the idle moneys of certain City special funds; and

WHEREAS, also on February 23, 2010, the City Council, the Board of Directors of the City of San Jose Financing Authority, and Agency Board authorized the City Manager, the Authority Executive Director, and Executive Director of the Agency to negotiate and execute a loan agreement, to provide funds to the Agency for the purpose of making the SERAF payments; and

WHEREAS, on May 6, 2010 the City, Authority and Agency entered into the Loan Agreement which anticipated that the Authority would issue commercial paper prior to the due date for each of the SERAF payments (May 10, 2010, and May 10, 2011) to loan to the Low - Mod Housing Fund, to replace funds loaned by the Low-Mod Fund to the Agency to make the SERAF payment.

WHEREAS, in order to reduce borrowing costs, City and Agency staff have recommended that since the Low-Mod Housing Fund currently has sufficient funds on hand to loan to the Agency, those funds should be loaned to the Agency to make the payment, and delaying the issuance of commercial paper until funding is needed for future Low-Mod Housing projects.

NOW THEREFORE, the City, Authority and Agency hereby agree to amend the Loan Agreement as follows:

SECTION 1. Section A of the Loan Agreement, entitled "Financing Authority Loan to Housing Fund" is hereby amended to read in full as follows:

A. FINANCING AUTHORITY LOAN TO HOUSING FUND.

1. Initial Loan Amount. Upon execution, and subject to the terms of this Agreement, the Authority agrees to make and the City agrees to accept a loan in the amount of $25,000,000.00 (the "Initial Loan Amount") to be paid in two installments as follows:

   a. First Installment in the amount of $12,000,000 by May 10, 2010.

   b. Second Installment in an amount not to exceed $13,000,000 by May 10, 2011.

2. Additional Loan Amounts. Throughout the term of this Agreement, the Authority will make additional funds available to the City as needed to replenish the Low-Mod Housing Fund for draws made to pay Associated Costs as defined in Paragraph A. 5 below. Such additional funds are estimated to be approximately $9,000,000 ("Additional Loan Amount"). The Initial Loan Amount, together with the Additional Loan Amounts, is referred to as the "Authority Loan".

3. Use of Loan Proceeds. The City shall deposit the Authority Loan proceeds into the Low-Mod Housing Fund, and shall use the proceeds only to fund low and moderate income housing activities, which include, but are not limited to, the development of affordable multi-family housing projects, loans for housing rehabilitation, teachers' housing loans and other eligible homebuyers' housing loans and eligible Low-Mod Housing

Fund administrative costs. In the event that the SERAF payment is no longer required to be made by the Agency, due to either a change in legislation or by a final order of a court of competent jurisdiction ("Change in Law"), then the Authority will not be obligated to make any installment of the Loan following the effective date of such Change in Law.

4. Sources of Loan Proceeds. The Authority shall issue City of San José Financing Authority's Lease Revenue Commercial Paper Notes in the amounts required to provide proceeds to make the installments set forth in paragraph 1.a and b. above.

5. Repayment Obligations.

   a. The City shall repay the Authority, from the Low-Mod Housing Fund, the principal amount of the Authority Loan, which includes Associated Costs, consisting of the following:

      i. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority Commercial Paper issued pursuant to this Agreement.

      ii. Interest at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes remain outstanding.

      iii. Fees to the City for loan origination and annual compliance.

   b. The City's obligation to repay the Authority Loan from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below.

6. City Discretion to Borrow from Authority. Notwithstanding the above, in the event that the City, in its discretion, determines that it has sufficient Low-Mod Housing Funds to loan to the Agency without borrowing commercial paper proceeds from the Authority, the Authority may delay the issuance of commercial paper until the City determines that funding is needed for future Low-Mod Housing projects.

Executed by the City, Authority and Agency on the day and year first above written.

CITY OF SAN JOSE

Approved to form:

Chief Deputy City Attorney

Debra Figone
City Manager

THE REDEVELOPMENT AGENCY
OF THE CITY OF SAN JOSE

Approved to form:

Chief Deputy General Counsel

Harry S. Mavrogenes
Executive Director

THE CITY OF SAN JOSE FINANCING
AUTHORITY

Debra Figone
Executive Director

EXECUTORY COPY

LOAN AGREEMENT BY AND AMONG THE CITY OF SAN JOSE, THE CITY OF SAN JOSE FINANCING AUTHORITY AND THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND

This Loan Agreement ("Agreement") is made and entered into this 23rd day of February, 2010, by and among the City of San Jose, a municipal corporation ("City"), the City of San Jose Financing Authority, a public body, corporate and politic, duly organized and existing under the laws of the State of California ("Authority"), and The Redevelopment Agency of the City of San Jose, a public body, corporate and politic ("Agency").

RECITALS

WHEREAS, the Agency is presently engaged in redevelopment activities in various redevelopment project areas; and

WHEREAS, the City and Agency entered into that certain Cooperation Agreement, dated September 28, 1990, pursuant to which the Agency delegated to the City the administration of the Low and Moderate Income Housing Fund ("Low-Mod Housing Fund"), into which 20% of gross tax increment collected by the Agency is deposited pursuant to the California Community Redevelopment Law ("CRL"); and

WHEREAS, on July 29, 2009, the Governor signed the State budget, including AB4x26 which requires redevelopment agencies in the State make payment to a Supplemental Educational Revenue Augmentation Fund ("SERAF"), and

WHEREAS, the Agency's SERAF obligation is $62,247,530 in FY 2009-2010 and approximately $12.8 million in FY 2010-2011; and

WHEREAS, AB26x4 and subsequent clarifying legislation, allows the Agency to make its SERAF payments with funds borrowed from the Low-Mod Housing Fund, as long as the Agency finds that there are insufficient other moneys to meet the SERAF payment requirement, and such borrowed funds are repaid within five years from date of borrowing; and

WHEREAS, on February 23, 2010, the Agency's Board made the finding that the Agency has insufficient moneys other than from the Low-Mod Housing Fund to make its SERAF payment in FY 2009-10; and

WHEREAS, AB26x4 also allows redevelopment agencies to make the SERAF payment with any other funds that are legally available and not legally obligated for other uses, including but not limited to proceeds of bonds or other indebtedness; and

WHEREAS, on February 23, 2010, the Agency Board and City Council found that due to insufficient other monies, the Agency would need to pay the SERAF, in part, with funds borrowed from the Low-Mod Housing Fund and approved a plan to finance the SERAF payments through a loan from the Low-Mod Housing Fund, and from the idle moneys of certain City special funds; and

WHEREAS, also on February 23, 2010, the City Council, the Board of Directors of the City of San Jose Financing Authority, and Agency Board authorized their City Manager, the Authority Executive Director, and Executive Director of the Agency to negotiate and execute this loan agreement, to provide funds to the Agency for the purpose of making the SERAF payments; and

WHEREAS, this loan constitutes indebtedness of the Agency under the California Redevelopment Law.

The City, Authority and Agency hereby agree:

A. FINANCING AUTHORITY LOAN TO HOUSING FUND.

1. Initial Loan Amount. Upon execution, and subject to the terms of this Agreement, the Authority agrees to make and the City agrees to accept a loan in the amount of $25,000,000.00 (the "Initial Loan Amount") to be paid in two installments as follows:

   a. First Installment in the amount of $12,000,000 by May 10, 2010.

   b. Second Installment in an amount not to exceed $13,000,000 by May 10, 2011.

2. Additional Loan Amounts. Throughout the term of this Agreement, the Authority will make additional funds available to the City as needed to replenish the Low-Mod Housing Fund for draws made to pay Associated Costs as defined in Paragraph A. 5 below. Such additional funds are estimated to be approximately $9,000,000 ("Additional Loan Amount"). The Initial Loan Amount, together with the Additional Loan Amounts, is referred to as the "Authority Loan".

3. Use of Loan Proceeds. The City shall deposit the Authority Loan proceeds into the Low-Mod Housing Fund, and shall use the proceeds only to fund low and moderate income housing activities, which include, but are not limited to, the development of affordable multi-family housing projects, loans for housing rehabilitation, teachers' housing loans and other eligible homebuyers' housing loans and eligible Low-Mod Housing Fund administrative costs. In the event that the SERAF payment is no longer required to be made by the Agency, due to either a change in

legislation or by a final order of a court of competent jurisdiction ("Change in Law"), then the Authority will not be obligated to make any installment of the Loan following the effective date of such Change in Law.

4. Sources of Loan Proceeds. The Authority shall issue City of San José Financing Authority's Lease Revenue Commercial Paper Notes in the amounts required to provide proceeds to make the installments set forth in paragraph 1.a and b. above.

5. Repayment Obligations.

   a. The City shall repay the Authority, from the Low-Mod Housing Fund, the principal amount of the Authority Loan, which includes Associated Costs, consisting of the following:

      i. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority Commercial Paper issued pursuant to this Agreement.

      ii. Interest at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes remain outstanding.

      iii. Fees to the City for loan origination and annual compliance.

   b. The City's obligation to repay the Authority Loan from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below.

B. SERAF LOANS TO AGENCY.

1. Loan Amount. Upon execution, and subject to the terms of this Agreement, the City agrees to make and the Agency agrees to accept two loans from the City in the combined amount of $75,000,000. The two loans are described in detail below as the Low Mod Loan and the InterFund Loan.

2. Timing of Loan.

   a. The first installment of the SERAF Loans shall be delivered to the Agency in the amount of $62,000,000, in sufficient time for the Agency to make the first SERAF payment, on May 10, 2010.

   b. The second installment of the SERAF Loans shall be delivered to the Agency in an amount not to exceed $13,000,000, in sufficient

time for the Agency to make the second SERAF payment, in the same amount, on May 10, 2011.

3. Use of Loan Proceeds. The Agency shall use the proceeds of the SERAF Loans only for the purpose of making SERAF payments as required by law. In the event that the payment is no longer required to be made by the Agency, due to either a change in legislation or by final order of a court of competent jurisdiction, then the City will not be obligated to make the Low-Mod Loan.

4. Sources of Loan Proceeds.

   a. The Low-Mod Loan will be funded from the following funding sources:

      i. Low and Moderate Income Housing Fund. The Low-Mod Housing Fund will be the source of $52,000,000 of the funding for the May 10, 2010 installment, and up to $13,000,000 for the May 10, 2011 installment. In order to assure that it has available funding to make this Loan, and to continue to provide an affordable housing program, the Low-Mod Housing Fund will need to borrow from the following sources:

         (a) Housing Bond: Issuance of Redevelopment Agency of the City of San Jose Merged Area Redevelopment Project Taxable Subordinate Housing Set Aside Tax Allocation Variable Rate Bonds, Series 2010C (the "Housing TABs") of which $40,000,000 is allocated to the Low-Mod Fund.

         (b) Authority Commercial Paper: Issuance of City of San José Financing Authority's Lease Revenue Commercial Paper Notes in an amount required to net a total of $25,000,000 is allocated to the Low Mod Fund.

   b. The InterFund Loan. Idle moneys in the following special funds of the City will be the source of the $10 million Inter Fund Loan for the May 10, 2010 SERAF installment:

      i. Subdivision Park Trust Fund - $3 million;

      ii. Sewage Treatment Plan Connection Fee Fund - $5 million; and

iii. Ice Centre Revenue Fund - $2 million.

5. Repayment Obligations- Low Mod Loan.

a. The Agency shall repay the City, from any unrestricted funds legally available to the Agency (e.g. proceeds from taxable bonds, but not tax exempt bonds), the principal amount of the Low-Mod Loan, plus Associated Costs, which consist of the following:

i. Costs associated with the Housing TABs related to this Loan ($40,000,000 in proceeds) for as long as the Housing TABs related to this Loan remain outstanding, including prorated issuance costs of $215,700; and ongoing bank fees and third party administrative costs prorated based on $40,215,700 (principal plus cost of issuance).

ii. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority's Commercial Paper Notes issued to fund the loan to the Low-Mod Fund, for as long as those Notes related to the Loan remain outstanding.

iii. Interest on the portion of the Loan allocated to the Housing TABs at the actual rate paid by the Low-Mod Fund on the Housing TABs for as long as the Housing TABs related to this Loan remain outstanding.

iv. Interest on the portion of the Loan allocated to the Authority Commercial Paper Notes at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes related to this Loan remain outstanding.

v. Interest revenues earned from funds on deposit with the City associated with this Loan shall be netted against the Associated Costs.

vi. The parties acknowledge that the Housing TABs and the Commercial Paper Notes have flexible maturities that are callable upon a relatively short notice period. Upon 30 days notice from the Agency that it intends to prepay any portion of the Low Mod Loan, City shall defease that amount of debt from either the Housing TABS or the Commercial Paper Program at the earliest call date, provided that the minimum amount to be defeased at any one time shall be $500,000.

Agency shall remain liable for all Associated Costs until the earliest date the City is able to effectuate the defeasance.

In the event that the Agency prepays a portion of the Low Mod Loan but the City chooses not to defease an equal amount of debt at the earliest call date, the Agency shall be relieved of the Associated Costs related to that portion of the debt that the City chose not to defease.

b. The Low Mod Loan must be repaid in full by the dates specified below:

i. $52,000,000 and Associated Costs due by June 30, 2015

ii. Actual principal amount not to exceed $13,000,000 and Associated Costs due by June 30, 2016

c. City shall invoice and Agency shall pay Associated Costs on a quarterly basis each August 1, November 1, February 1, and May 1, commencing August 1, 2010, provided that, to the extent such payments are not made by the Agency on a current basis, the amounts due and not paid shall be added to the principal balance owed.

d. The Loan is callable, in whole or in part, to the extent necessary at the discretion of the City Council, without penalty, under the following circumstances:

i. The Letter of Credit providing liquidity for the Authority Commercial Paper Notes is not renewed, or the Commercial Paper Notes are tendered back to the Authority, or any other circumstance that results in the immediate redemption of the Commercial Paper Notes;

ii. The credit facility providing liquidity for the Housing TABs is not renewed, or the TABs are tendered back to the Agency, or any other circumstance that results in the immediate redemption of the TABs.

6. <u>Repayment Obligations- InterFund Loan</u>.

a. The Agency shall repay the City, from any unrestricted funds legally available to the Agency (e.g., proceeds from taxable bonds, but not tax exempt bonds), the $10,000,000 principal amount of the InterFund Loan, plus Associated Costs.

b. For the purposes of the InterFund Loan, Associated Costs consist of Interest on the InterFund Loan calculated at the City investment pool rate earned for each of the years the loan remains outstanding.

c. The InterFund Loan shall be due on or before June 30, 2015.

d. The InterFund Loan is callable, in whole or in part, to the extent necessary at the discretion of the City Council, without penalty, under the following circumstances:

i. The capital needs of the Subdivision Park Trust Fund, the Sewage Treatment Plant Connection Fee Fund, or the Ice Centre Revenue Fund require replenishment.

ii. Funds are required to refund developers from the Subdivision Park Trust Fund in the event that such refunds are required by state law.

7. Loan Fees. The Agency shall also pay fees to the City as follows:

a. A onetime loan origination fee in the amount of $375,000, which is 0.50% (1/2 of 1%) of the combined principal amount of $75,000,000, and is payable by May 10, 2010. The purpose of this fee is to reimburse the City for the resources utilized to develop, analyze and implement the SERAF Loan funding components;

b. An annual loan administration and monitoring fee of $187,500, which is 0.25% of the original principal amount of the Loan for each year the SERAF Loans remain outstanding.

8. Prepayment.

a. The Agency may prepay all or a portion of the SERAF Loans, without penalty, at any time. In the event of such prepayment, the provisions of Section B.5.a.vi. shall apply.

b. The Agency shall prepay a portion of the SERAF Loans if, at any time during the term of the Loans, the Agency issues new money San Jose Merged Area Tax Allocation Bonds in excess of $33 million. The amount of the SERAF Loan to be prepaid shall be determined by the City Council and Agency Board at the time of the issuance of such Bonds, based on the circumstances at the time.

9. Change in SERAF Obligation. In the event that the Agency no longer has the legal obligation to make or to have made the SERAF payment, as the result of a Change in Law, the following alternative actions shall be taken:

   a. If such Change in Law occurs prior to May 10, 2010, and the City has not made the First Installment of the SERAF Loan, Agency shall within 30 days of receipt of an invoice from the City, repay the City Associated Costs incurred as of the date of the Change in Law.

   b. If such Change in Law occurs prior to May 10, 2010, and the Agency has received the First Installment of the SERAF Loan, but has not yet made the SERAF payment, the Agency shall immediately relinquish the First Installment of the SERAF Loan to the City and shall within 30 days of receipt of invoice from the City, repay the City Associated Costs incurred as of the date of the Change in Law.

   c. If such Change in Law occurs after the Agency has made one or both of the SERAF payments, the Agency shall repay to the City the principal amount of the SERAF Loan then outstanding, within 30 days from the date on which the Agency receives its refund of its SERAF payment(s). The Agency shall pay Associated Costs incurred as of the date of the Change in Law within 30 days of receipt of invoice from the City.

   d. If an interim order by a court of competent jurisdiction stays the SERAF payment prior to May 10, 2010, the City shall hold the May 10, 2010 installment of the Low Mod Loan in escrow until such time as a final court order regarding the SERAF payment is issued. If the Commercial Paper Notes have not yet been issued, the City will delay the issuance of the Commercial Paper Notes until the parties agree as to the best course upon the issuance of a final Court order.

10. Consequence of Non Repayment. The parties acknowledge that Agency's failure to repay the principal amount of the Low-Mod Loan in full on the repayment dates set forth in Paragraph B.5.b. above, will trigger an increase in the percentage of housing set-aside tax increment as required by Sections 33690 and 33690.5 of the Redevelopment Law.

11. Priority of Repayment. The City will determine the allocation of the proceeds of repayment of the SERAF Loans based upon the circumstances at the time of repayment, with priority consideration given to repayment of the Low-Mod Loan within the statutory timeframes required by California Health and Safety Sections 33690 and 33690.5.

12. Agency Asset for Lease. The parties acknowledge that the Authority's Commercial Paper Program is secured by lease payments on various City-owned facilities. From time to time, the City may need to substitute such facilities with other assets. At City's request, Agency agrees to take all actions necessary to make available the California Theater as a substitute asset for the Authority's Commercial Paper Program.

C. MISCELLANEOUS.

1. Notice. All notices, requests and other communications provided for hereunder shall be in writing, delivered addressed as follows:

To the City:

Scott Johnson, Director
City of San Jose
Department of Finance
200 E. Santa Clara Street, 13th Floor Tower
San Jose, CA 95113

Leslye Krutko, Director
City of San Jose
Housing Department
200 E. Santa Clara Street, 12th Floor Tower
San Jose, CA 95113

To the Agency:

David Baum
Director of Finance
Redevelopment Agency of the City of San Jose
200 E. Santa Clara Street, 14th Floor Tower
San Jose, CA 95113

2. No Third Party Beneficiaries. No person or entity, other than the City, Authority and the Agency, shall have any right of action under this Loan Agreement.

3. Time. Time is of the essence in this Agreement.

4. Amendments. Amendments to this Agreement shall be effective only upon the mutual agreement in writing of the parties hereto.

5. Severability. If any provisions of this Agreement are held invalid, the remainder of this Agreement shall not be affected hereby, if such remainder would then continue to conform to the terms and requirements of applicable law.

6. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

7. Implementation.

   a. City will provide the Agency annually as part of the Agency's budget development process estimated annual interest and associated costs. After the end of each fiscal year, the City will provide the Agency a reconciliation of budgeted interest and associated costs to actual interest and associated costs.

   b. Attachment A-1 sets forth a Proforma SERAF Loan Repayment Schedule. Attachment A-2 set forth a Proforma Schedule of Fees and Interest on the SERAF Loans. These Proformas are for illustration purposes only subject to change depending on timing of actual repayment amounts from the Agency and actual interest and fees accrued over the term of the loan.

Executed by the City, Authority and Agency on the day and year first above written.

CITY OF SAN JOSE

Approved to form:

Chief Deputy City Attorney

Debra Figone
City Manager

THE REDEVELOPMENT AGENCY
OF THE CITY OF SAN JOSE

Approved to form:

Chief Deputy General Counsel

Harry S. Mavrogenes
Executive Director

THE CITY OF SAN JOSE FINANCING
AUTHORITY

Debra Figone
Executive Director

SERAF LOAN REPAYMENT PROFORMA[1]

Source of Repayment: **The Redevelopment Agency's repayment to the City shall be from any legally available unrestricted funds on deposit with the Agency.**

Initial Principal[2]: $75,000,000 ($10M Inter-Fund Loan + $65M Housing Fund Loan)

Agency Repayment Obligations

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Total
SERAF Loans								
Beginning Balance	0	62,768,250	78,150,750	82,137,250	84,358,750	80,649,450	12,064,850	0
Principal								
Housing Loan[3]	52,000,000	13,000,000	0	0	0	0	0	65,000,000
Inter-Fund Loan	10,000,000	0	0	0	0	0	0	10,000,000
Interest & Fees[4]								
Housing Loan	734,250	2,256,500	3,823,500	3,955,500	4,022,500	3,995,500	731,500	19,519,250
Inter-Fund Loan	34,000	126,000	163,000	266,000	380,000	308,000	321,000	1,598,000
Repayments[5]	0	0	0	(2,000,000)	(8,111,800)	(72,888,100)	(13,117,350)	(96,117,250)
Ending Balance	**62,768,250**	**78,150,750**	**82,137,250**	**84,358,750**	**80,649,450**	**12,064,850**	**0**	**0**

Notes:

1. The SERAF Loan Repayment Proforma is provided for illustration purpose, subject to change depending on timing of actual repayment amounts from the Agency and actual interest and fees accrued over the term of the loan.

2. Initial principal loan amount is expected to increase by the accrued interest and fees.

3. Housing Fund Loan Principal due in two installments: $52 million due on or prior to June 30, 2015 and $13 million due on or prior to June 30, 2016. Failure to meet these dates will trigger an increase in the percentage of housing set-aside tax increment as required by Sections 33690 and 33690.5 of the Redevelopment Law.

4. Estimated annual SERAF Loan Interest & Fees. Actual interest and fees to be accrued annually based on actual rates (see Attachment A-2).

5. Projected Repayments per Agency 2009-10 Budget & 2010-15 CIP approved by Agency Board on February 23, 2010.

SERAF SCHEDULE OF FEES AND INTEREST (PROFORMA)[1]

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Taxable Interest Rate[2]	2.55%	2.90%	5.05%	5.05%	5.05%	5.05%	5.05%

Loan Origination Fee[3]: $375,000 (one time fee)
Annual Loan Monitoring Fee[3]: $187,500 (annual fee)

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Total
Loan Origination Fee	375,000	0	0	0	0	0	0	375,000
Loan Monitoring Fee	31,250	187,500	187,500	187,500	187,500	187,500	187,500	1,156,250
TABs Interest[4]	172,000	1,166,000	2,031,000	2,031,000	2,031,000	2,031,000	0	9,462,000
CP Banking Fees[5]	136,000	544,000	544,000	544,000	544,000	544,000	544,000	3,400,000
CP Interest[6]	20,000	359,000	1,061,000	1,193,000	1,260,000	1,233,000	0	5,126,000
Total Interest & Fees (rounded)	**734,250**	**2,256,500**	**3,823,500**	**3,955,500**	**4,022,500**	**3,995,500**	**731,500**	**19,519,250**

Notes:

1. The interest rates and fees included in this proforma are for illustration purpose. The actual interest and fees may vary depending on financial market factors that affect interest rates, liquidity, competition, demand, and other global macro and micro economic factors, in addition to the City's financial management policies and budgeting practices.

2. Taxable interest rate assumption per the 2010-15 General Fund Debt Service Projection. This is a projection of the all in interest rate which includes all third party fees associated with the credit facility. The interest rate assumptions are subject to periodic adjustment by the City's Finance Department to reflect the then current market conditions through the City's Budget process.

3. The one-time loan origination fee is equal to 0.50% of the $75 million principal.
The annual loan monitoring fee is equal to 0.25% of the $75 million principal.

4. Estimated TABs Interest allocation based on $40,215,700 gross proceeds for SERAF Loan ($40M par + $215.7K cost of issuance) out of total proceeds of $93M for HSA TABs Series 2010C (43.24%).

5. CP Banking Fees estimate is based on 1.60% for $34 million capacity utilization. Subject to change based on third party agreements with the City.

6. CP Interest estimate is equal to the all in taxable interest rate less 1.60% estimated banking fee noted above (note 5). For example, for FY 2010-11, the estimated CP interest rate is 1.30%, which is equal to the 2.90% estimated all in interest rate less 1.60% for the estimated banking fees.

ATTACHMENT A
Attachment #2

COUNTY OF SANTA CLARA
AUDITOR-CONTROLLER'S OFFICE

REPORT ON THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
PURSUANT TO AB X1 26

October 5, 2012

County of Santa Clara
Finance Agency

County Government Center
70 West Hedding Street, East Wing, 2nd Floor
San Jose, California 95110-1705
(408) 299-5205 FAX: (408) 287-7629

Friday, October 5, 2012

Hon. John Chiang, State Controller
P.O. Box 942850
Sacramento, CA 94250

Ms. Ana Matosantos, Director
Department of Finance
915 L Street
Sacramento, CA 95814

Oversight Board for the San José Successor Agency
200 E Santa Clara Street
San Jose, CA 95113

City of San José Successor Agency
200 E Santa Clara Street
San Jose, CA 95113

Re: San José Redevelopment Agency Agreed Upon Procedures Report Pursuant to Health and Safety Code Section 34182

Dear State Controller, Department of Finance, Oversight Board, and Successor Agency:

We present this Agreed Upon Procedures Report for the San José Redevelopment Agency ("Agency") in accordance with Health and Safety Code section 34182. This report is presented in several sections, with attachments including tables for the establishment of assets and liabilities. The majority of the agreed upon procedures were performed by Burr Pilger Mayer, retained under contract by the Santa Clara County Finance Agency.

By law, the purpose of this report is to establish the assets, liabilities, and other indebtedness of the former redevelopment agency, as well as to document and determine any passthrough payment obligations to taxing entities. Below, we highlight the major findings.

Major Findings

Assets

Section 1 shows all assets that were available upon termination of the Agency on January 31, 2012. These have been divided into two components: (1) Assets Transferable to the Housing

Successor Agency and (2) Assets Available for the Successor Agency under the Purview of the Oversight Board.

There were several significant adjustments to assets listed by the Successor Agency:

1. The report identifies $726,214 in prepaid housing administrative expenses that are assets of the Successor Agency, to be returned to it by the City of San José, as further described in Section 3, Item 1.8. The Successor agency does not contest this finding.

2. The audit identifies $82,000,000 in duplicate liabilities for the Successor Agency connected to a purported $54,439,060 housing receivable resulting from the 2010 SERAF loan from the Housing Fund to the Agency. The receivable collapses because of the disallowance of the underlying debt liability as an enforceable Agency obligation for repayment. This item is further described in Section 9. In essence, this receivable was a conduit for the repayment of underlying debt ($40 million of the 2010 Series C Housing Bonds and $12 million from the City's Commercial Paper program, plus associated interest and fees). Since this underlying debt was transferred to the Successor Agency and is listed on the ROPS for repayment, the pass-through liability to the Housing Fund collapses to avoid double-counting the same liability.

3. Unencumbered housing cash of $10,155,043 was restored to the housing cash balance available for the Successor Agency to meet its obligations as of February 1, 2012. This is further described in Section 8.

4. Property transferred to the Diridon Development Authority and City in March 2011 (during the claw-back period) is added back as land and capital assets and is further explained in Section 3, Items 1.15 and 1.16.

Total established assets for the Successor Agency were $516,136,529. A full listing of the Agency's real property is in Section 5.

Liabilities

Section 2 shows all established liabilities and other obligations at January 31, 2012, totaling $3,892,998,542. All adjustments to obligations listed by the Successor Agency are explained in the references in Section 3.

The major adjustments to liabilities included:

1. As described above and in Section 9 of the report, related to the write-down of the $54 million receivable for the 2010 SERAF loan, $82 million in liabilities is disallowed. The $82 million number comes from adding interest and various fees to the underlying $54 million receivable.

2. A handful of contracts were signed on June 28, 2011; per AB 1484 and a court decision, contracts entered into after June 27, 2011 are void.

3. An increase of $14,772,000 related to the City's Commercial Paper program, as described above and in Section 9, related to the 2010 SERAF loan.

Also listed in Section 2 are three loan obligations that were invalidated as of February 1, 2012, under Health and Safety Code sections 34171(d)(2) and 34178(a) as agreements between the city and former redevelopment agency. Pursuant to AB 1484, when the Successor Agency receives a "finding of completion" from the Department of Finance, these loan obligations are eligible for restoration under certain conditions and upon Oversight Board approval. One of the conditions is that the obligations must be recalculated from origination at the rate earned by the Local Agency Investment Fund (LAIF).[1] Accordingly, Section 2 shows the recalculated amounts, should all relevant conditions be met and the obligations are restored as enforceable.

Passthrough Obligations

The Agency has one negotiated passthrough and numerous AB 1290 (statutory) passthrough obligations. Section 4 outlines the passthrough procedures. Of note, the Agency is accruing a penalty liability, compounding at 10% per annum, for unpaid passthrough owed to the County of Santa Clara.

Asset Transfers

The tables in Section 1 detail the transfers identified by the audit. Of these, numerous properties transferred to the Diridon Development Authority and City of San José in early 2011 are subject to claw-back actions by the State Controller's Office as required under Health and Safety Code section 34167.5. Accordingly, these assets have been restored as Successor Agency assets.

Respectfully submitted,

Vinod K. Sharma, C.P.A.
Director of Finance
County of Santa Clara

[1] Health and Safety Code section 34191.4(b).

COUNTY OF SANTA CLARA
AUDITOR-CONTROLLER'S OFFICE

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Section 1

City of San Jose Redevelopment Agency

Establishment of Assets at 1/31/12
County of Santa Clara Auditor Controller
(Per ABX1 - 26 Section 34182)

NO.	Description	Unaudited Balance per RDA Books 1/31/2012	Adjustments					Established Per Auditor/Controller 1/31/2012
				Increases		Decreases		
			Ref	Amount	Ref	Amount	Ref	
	Assets Transferable to Housing Successor Agency							
1	Cash and investments - encumbered housing funds	$ 8,779,302		-		-		$ 8,779,302
2	Prepaid expenses	726,214		-		726,214	1.8	-
3	Loans receivable	261,746,479		-		-		261,746,479
4	Advances to other funds	67,254,728		-		54,439,060	Section 9	12,815,668
5	Property held for development projects	20,771,003	1.14	-		-		20,771,003
	Sub-Total	**359,277,726**		**-**		**55,165,274**		**304,112,452**
	Assets Available for Successor Agency							
6	Cash and investments - unrestricted - committed	8,887,540	1.1	-		-		8,887,540
7	Cash and investments - restricted for debt service reserve funds and other restrictions	80,109,894	1.3	-		-		80,109,894
8A	Cash Reserves Restricted for Final Bond Payments - Housing Funds	41,708,758	1.1	-		-		41,708,758
8B	Cash and investments - debt service housing funds	6,249,723	1.1	-	-	-		6,249,723
9	Cash and investments - housing funds - unrestricted			10,155,043	Section 8			10,155,043
	Accounts receivable:							
10	Accrued interest	5,688,652	1.4	-		-		5,688,652
11	Due from the City of San Jose	178,856	1.5	726,214	1.8	-		905,070
12	Due from other agencies	50,906		-		50,906	1.6	-
13	Other	259,237		-		101,630	1.7	157,607
14	Loans receivable	30,560,622	1.12	-		-		30,560,622
15	Advances to the City	830,362	1.10	-		-		830,362
16	Deposits	155,315	1.13	-		-		155,315
17	Land	66,036,261		53,805,036	1.15, 1.16	-		119,841,297
18	Construction in Progress	976,695		-		-		976,695
19	Depreciable capital assets	124,931,297		84,978,654	1.15, 1.16	-		209,909,951
	Sub-Total	**366,624,118**		**149,664,947**		**152,536**		**516,136,529**
	Total Assets	**$ 725,901,844**		**$ 149,664,947**		**$ 55,317,810**		**$ 820,248,981**

Source: City of San Jose Redevelopment Agency and City of San Jose Housing Department

ATTACHMENT A

City of San Jose Redevelopment Agency
Establishment of Transfers
January 1, 2011 to January 31, 2012

County of Santa Clara Auditor - Controller
(Per ABX1 26 Section 34177)

Schedule 1: Transferred from the City of San Jose RDA to the San Jose Diridon Development Authority

No.	Description of Asset Transferred	Purpose of Transfer	Date Placed in Service	Date of Transfer	Transferred From	Transferred to	Amount Transferred	Is Asset Contracted to 3rd Party pre 6/28/11?	Attachments	APN/Asset No.
1	105 S. Montgomery Street	Future development projects in the Diridon Area	2/2/2006	3/9/2011	City of San Jose RDA	San Jose Diridon Development Authority	$6,356,157.78	No	1-10, 1-11, 1-12, 1-13, 1-14, 1-40, 1-41	261-35-003 261-35-006 261-35-010
2	92 S. Montgomery / 547 W. San Fern.		5/17/2007	3/9/2011	City of San Jose RDA	San Jose Diridon Development Authority	$1,362,308.34	No	1-10, 1-11, 1-12, 1-13, 1-14, 1-40, 1-41	259-38-019
3	102 S. Montgomery		5/17/2007 5/17/2007	3/9/2011	City of San Jose RDA	San Jose Diridon Development Authority	$1,234,922.85	No	1-10, 1-11, 1-12, 1-13, 1-14, 1-40, 1-41	259-48-012
4	115 S. Autumn St./ 510 W. San Fern.		6/30/2007	3/9/2011	City of San Jose RDA	San Jose Diridon Development Authority	$6,345,391.03	No	1-10, 1-11, 1-12, 1-13, 1-14, 1-40, 1-41	259-48-011 259-48-013
5	150 S. Montgomery St.		6/21/2006	3/9/2011	City of San Jose RDA	San Jose Diridon Development Authority	$6,250,860.00	No	1-10, 1-11, 1-12, 1-13, 1-14, 1-40, 1-41	259-48-053
6	645 Park Ave.		6/25/2008	3/9/2011	City of San Jose RDA	San Jose Diridon Development Authority	$6,000,000.00	No	1-10, 1-11, 1-12, 1-13, 1-14, 1-40, 1-41	261-35-014
7	8 S. Montgomery		6/30/1992	3/9/2011	City of San Jose RDA	San Jose Diridon Development Authority	$1,588,087.11	No	1-10, 1-11, 1-12, 1-13, 1-14, 1-40, 1-41	259-38-130
	Total Transfers						$29,137,727.11			

Schedule 2: Transferred from the City of San Jose RDA to the City of San Jose

No.	Description of Asset Transferred	Purpose of Transfer	Date Placed in Service	Date of Transfer	Transferred From	Transferred to	Amount Transferred	Is Asset Contracted to 3rd Party pre 6/30/11?	Attachments	APN/Asset No.
8	500 S. 1st Street land	Consideration given for acquisition of Old City Hall	9/23/2008	6/30/2011	City of San Jose RDA	City of San Jose	$2,420,966.50	No	1-20, 1-40, 1-41	472-26-037
9	Block 1 Fairmont Hotel Plaza	Properties acquired and developed for public facilities	1/1/1970	3/9/2011	City of San Jose RDA	City of San Jose	$2,240,965.20	No	1-20, 1-40, 1-41	259-41-087
10	California Theater		9/1/1985	3/9/2011	City of San Jose RDA	City of San Jose	$67,675,958.35	No	1-20, 1-40, 1-41	264-29-114
11	Autumn Street Extension		4/9/2009	3/9/2011	City of San Jose RDA	City of San Jose	$377,068.00	No	1-20, 1-40, 1-41	259-29-041
12	Autumn Street Extension - Akatiff Properties		6/1/2010	3/9/2011	City of San Jose RDA	City of San Jose	$4,669,614.00	No	1-20, 1-40, 1-41	259-25-050, 259-25-043, 259-25-051, 259-29-067, 259-29-094
13	Autumn Street Extension - 435 West Julian		6/22/2010	3/9/2011	City of San Jose RDA	City of San Jose	$400,753.00	No	1-20, 1-40, 1-41	259-25-002
14	Balbach Parking Lot		8/4/2000	3/9/2011	City of San Jose RDA	City of San Jose	$14,557,943.02	No	1-20, 1-40, 1-41	264-30-010 thru 028, 264-30-136
15	Temporary Convention Center		CIP	3/9/2011	City of San Jose RDA	City of San Jose	$7,149,195.30	No	1-20, 1-40, 1-41	10148
16	500 S. 1st Street (MACLA)	Consideration given for acquisition of Old City Hall	9/23/2008	3/9/2011	City of San Jose RDA	City of San Jose	$153,500.00	No	1-20, 1-40, 1-41	472-26-037
17	Fairmont Garage Parking Structure	Consideration given for acquisition of Old City Hall	7/31/2001	3/9/2011	City of San Jose RDA	City of San Jose	$10,000,000.00	No	1-20, 1-40, 1-41	259-41-090
	Total Transfers						$109,645,963.37			

RECAP to Section I - Assets

	Total Transfers per schedules above	**$ 138,783,690**
	Section 1 Asset Increases	
Line 17	Land	53,805,036
Line 19	Depreciable capital Assets	84,978,654
	Total Increases	**$ 138,783,690**

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency
Establishment of Transfers
January 1, 2011 to January 31, 2012

County of Santa Clara Auditor - Controller
(Per ABX1 26 Section 34177)

Schedule 3: Disposed by City of San Jose RDA to Non-Governmental Third Parties

No.	Description of Asset Disposed	Purpose of Disposal	Date Placed in Service	Date of Disposal	Seller	Buyer	Book Value Amount	Sale Amount	Attachments	APN/Asset No.	
18	101 San Fernando	Liquidation of assets in order to fund future redevelopment activities	4/23/1998	7/9/2010	City of San Jose RDA	Essex San Fernando L.P.	$7,010,500.00	$7,010,500.00	1-30, 1-40, 1-41	467-23-096	
19	The Colonade	Liquidation of assets in order to fund future redevelopment activities	1/1/1969	6/15/2011	City of San Jose RDA	Chardonnay Associates	$1,496,466.16	$1,195,000.00	1-31, 1-40, 1-41	467-45-073 thru 075, 467-45-086, 467-45-097, 467-45-098	
20	lock 1 Fairmont Hotel Anne	Liquidation of assets in order to fund future redevelopment activities	1/1/1998	5/31/2011	City of San Jose RDA	Imwalle Annex HBD LLC	$4,000,000.00	$3,925,000.00	1-32, 1-40, 1-41	259-56-002 thru 004	
21	Autumn Street Extension - 445 West Julian	Liquidation of assets in order to fund future redevelopment activities	4/1/2010	5/3/2011	City of San Jose RDA	Akatiff Living Trust	$1,020,387.00	$450,000.00	1-32, 1-40, 1-41	259-25-003	
22	Fairmont Annex Retail	Liquidation of assets in order to fund future redevelopment activities	10/31/2003	5/31/2011	City of San Jose RDA	Imwalle Annex HBD LLC	$1,888,250.00	$1,888,250.00	1-32, 1-40, 1-41	10098	
23	Block 3 Central Place	Liquidation of assets in order to fund future redevelopment activities	1/1/1969	8/5/2011	City of San Jose RDA	Sobrato Organization	$5,125,000.00	$5,125,000.00	1-50, 1-51	467-22-156	See Note A below
24	Fountain Alley Parking Lot	Liquidation of assets in order to fund future redevelopment activities	1/1/1994	10/12/2011	City of San Jose RDA	NRF VII SJ LLC/Next Realty	$6,175,000.00	$6,175,000.00	1-60, 1-61, 1-62	467-22-121	See Note B below
	Total Transfers						**$26,715,603.16**	**$25,768,750.00**			

Schedule 4: Disposed by City of San Jose RDA to Governmental Third Parties

1	Old City Hall	Part of settlement agreement to settle liability to the County	6/30/2011	6/27/2011	City of San Jose RDA	County of Santa Clara	$10,000,000.00		1-33, 1-40, 1-41	259-04-006
	Total Transfers						**$10,000,000.00**			

Note A: The Agency entered into a Purchase and Sale Agreement with the Sobrato Organization on March 15, 2011. See Section 5 and 8 for further details.
Note B: The Agency entered into a Purchase and Sale Agreement with Next Realty on March 14, 2011. See Section 5 and 8 for further details.

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

Establishment of Liabilities at 1/31/12
County of Santa Clara Auditor Controller
(Per AB X1 - 26 Section 34182)

Item No.	Project Name or Debt Obligation	Total Liabilities Per Certified ROPS 1/31/2012	Adjustments: Increases Amount	Increases Ref	Decreases Amount	Decreases Ref	Established Per Auditor/Controller 1/31/2012
Section 1: Debt Obligations Listed on the ROPS							
1	Series 1993 (Merged Area Refunding)	22,561,800		2.1			22,561,800.00
	Series 1993 Reserve Fund	-					-
2	Series 1997 (Merged Area)	8,986,749					8,986,749.00
	Series 1997 Reserve Fund	-					-
3	Series 1999 (Merged Area)	17,489,263					17,489,263.00
	Series 1999 Reserve Fund	-					-
4	Series 2002 (Merged Area)	15,450,325					15,450,325.00
	Series 2002 Reserve Fund	-					-
5	Series 2003 (Merged Area)	238,179,850					238,179,850.00
	Series 2003 Reserve Fund	12,545,477					12,545,477.00
6	Series 2004A (Merged Area)	233,911,609					233,911,609.00
	Series 2004A Reserve Fund	-					-
7	Series 2005A (Merged Area)	188,857,553					188,857,553.00
	Series 2005A Reserve Fund	-					-
8	Series 2005B (Merged Area)	74,264,250					74,264,250.00
	Series 2005B Reserve Fund	-					-
9	Series 2006A (Taxable) (Merged Area)	21,051,800					21,051,800.00
	Series 2006A Reserve Fund	-					-
10	Series 2006B (Merged Area)	133,159,000					133,159,000.00
	Series 2006B Reserve Fund	-					-
11	Series 2006C (Merged Area)	730,962,153					730,962,153.00
	Series 2006C Reserve Fund	-					-
12	Series 2006D (Merged Area)	412,044,500					412,044,500.00
	Series 2006D Reserve Fund	-					-
13	Series 2007A (Taxable) (Merged Area)	16,709,715					16,709,715.00
	Series 2007A Reserve Fund	-					-
14	Series 2007B (Merged Area)	359,548,425					359,548,425.00
	Series 2007B Reserve Fund	-					-
15	Series 2008A (Merged Area)	35,089,625					35,089,625.00
	Series 2008A Reserve Fund	2,525,068					2,525,068.00
16	Series 2008B (Merged Area)	163,531,550					163,531,550.00
	Series 2008B Reserve Fund	8,109,635					8,109,635.00
17	Series 1993 (Merged Area Refunding)	127,884					127,884.00
	Fiscal Agent Fees						-
18	Series 1997 (Merged Area)	52,000					52,000.00
	Fiscal Agent Fees						-
19	Series 1999 (Merged Area)	58,536					58,536.00
	Fiscal Agent Fees						-
20	Series 2002 (Merged Area)	79,485					79,485.00

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

Establishment of Liabilities at 1/31/12
County of Santa Clara Auditor Controller
(Per AB X1 - 26 Section 34182)

Item No.	Project Name or Debt Obligation	Total Liabilities Per Certified ROPS 1/31/2012	Adjustments				Established Per Auditor/Controller 1/31/2012
			Increases		Decreases		
			Amount	Ref	Amount	Ref	
	Fiscal Agent Fees						-
21	Series 2003 (Merged Area)	77,660					77,660.00
	Fiscal Agent Fees						-
22	Series 2004A (Merged Area)	85,100					85,100.00
	Fiscal Agent Fees						-
23	Series 2008A (Merged Area)	75,060					75,060.00
	Fiscal Agent Fees						-
24	Series 1996A (Merged Area) (2)	37,730,590					37,730,590.00
	Series 1996A Reserve Fund	-					-
25	Series 1996B (Merged Area) (2)	37,660,432					37,660,432.00
	Series 1996B Reserve Fund	-					-
26	Series 2003A (Taxable) (Merged Area) (2)	48,003,905					48,003,905.00
	Series 2003A Reserve Fund	-					-
27	Series 2003B (Merged Area) (2)	29,862,992					29,862,992.00
	Series 2003B Reserve Fund	-					-
28	Fiscal Agent Fees - Subordinate Obligations	166,076					166,076.00
	Fiscal Agent Fees						-
29	LOC Fees	1,080,000					1,080,000.00
	Fees						-
30	Series 1996A & B (Merged Area)	376,343					376,343.00
	Remarketing Fees						-
31	Series 2003A (Taxable) (Merged Area)	478,583					478,583.00
	Remarketing Fees						-
32	Series 2003B (Merged Area)	213,142					213,142.00
	Remarketing Fees						-
33	Series 1996A & B; Series 2003A&B; Series 2008F (Merged Area)	145,500					145,500.00
	Remarketing Fees						-
34	4th and San Fernando - Series 2001A	48,790,915					48,790,915.00
	4TH and San Fernando Reserve Fund	-					-
35	4th and San Fernando - Series 2001A	46,200					46,200.00
	Fiscal Agent Fees						-
36	Convention Center - Series 2001F	170,732,450					170,732,450.00
	Convention Center Reserve Fund	15,563,500					15,563,500.00
37	Convention Center - Series 2001F	45,885					45,885.00
	Fiscal Agent Fees						-
	Subtotal	3,086,430,585					3,086,430,585.00
HOUSING LIABILITIES							
38	Series 1997E (AMT) (Merged Area)	29,238,288					29,238,288.00
	Series 1997E Reserve Fund	-					-
39	Series 2003J (Taxable) (Merged Area)	47,276,801					47,276,801.00

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

Establishment of Liabilities at 1/31/12
County of Santa Clara Auditor Controller
(Per AB X1 - 26 Section 34182)

Item No.	Project Name or Debt Obligation	Total Liabilities Per Certified ROPS 1/31/2012	Adjustments				Established Per Auditor/Controller 1/31/2012
			Increases		Decreases		
			Amount	Ref	Amount	Ref	
	Series 2003J Reserve Fund	-					-
40	Series 2003K (Merged Area)	8,603,861					8,603,861.00
	Series 2003K Reserve Fund	-					-
41	Series 2005A (Merged Area)	15,693,750					15,693,750.00
	Series 2005A Reserve Fund	-					-
42	Series 2005B (Taxable) (Merged Area)	191,039,365					191,039,365.00
	Series 2005B Reserve Fund	-					-
43	Series 2010A-1 (Merged Area)	101,742,412					101,742,412.00
	Series 2010A&B Reserve Fund	9,977,140					9,977,140.00
44	Series 2010A-2 (Merged Area)	3,215,500					3,215,500.00
	Please see Series 2010A above	-					-
45	Series 2010B (Taxable) (Merged Area)	6,057,986					6,057,986.00
	Please see Series 2010A above	-					-
46	Series 2010C (Taxable) (Merged Area)	230,319,989					230,319,989.00
	Series 2010C Reserve Fund	-					-
47	Bond Logistics	150,000			100,000	Section 7	50,000.00
48	CSCDA - 2005 ERAF Loan	8,666,753					8,666,753.00
49	CSCDA - 2006 ERAF Loan	9,066,536					9,066,536.00
50	Low Moderate Income Fund Loan 1	82,000,000			82,000,000	Section 9	-
51	Low Moderate Income Fund Loan 2	16,000,000					16,000,000.00
52	Agency Bond Activities	27,280					27,280.00
53	Agency's Operations	30,000					30,000.00
53	Commercial Paper Program	-	14,772,000			Section 9	14,772,000.00
	Subtotal - Housing	759,105,661					691,777,661.00
		$ 3,796,815,426	14,772,000		82,100,000		$ 3,778,208,246

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

Establishment of Liabilities at 1/31/12
County of Santa Clara Auditor Controller
(Per AB X1 - 26 Section 34182)

Item No.	Project Name or Debt Obligation	Total Liabilities Per Certified ROPS 1/31/2012	Adjustments: Increases Amount	Increases Ref	Decreases Amount	Decreases Ref	Established Per Auditor/Controller 1/31/2012
Section 2: Contractual Obligations Listed on the ROPS							
1	Arena Pass-through	3,195,000		2.2	-		3,195,000
2	Autumn Street Relocation	320,000			320,000	Section 7	-
3	Property-Based Business Improvement District Payments	148,284					148,284
4	Markham Terrace	13,000,000					13,000,000
5	Casa Feliz	9,670					9,670
6	San José Redevelopment Agency vs Solis, Torrez dba Patty's Inn	150,000					150,000
7	JP Morgan Reimbursement Agreements (2)	-					-
8	Civic Auditorium	253,989					253,989
9	Adobe-Water Monitoring	180,933					180,933
10	ACE Charter School	185,373					185,373
11	Corporate Expansion Program	263,476					263,476
12	Corporate Expansion Program	250,000					250,000
13	Corporate Expansion Program	500,000					500,000
14	Corporate Expansion Program	80,000					80,000
15	Corporate Expansion Program	187,500					187,500
16	North San Pedro Housing	2,500,000					2,500,000
17	Block 3: Central Place Parking	264,995					264,995
18	NBD: Façade Improvements	13,673					13,673
19	NBD: Façade Improvements	65,000					65,000
20	NBD: Façade Improvements	60,000					60,000
21	NBD: Façade Improvements	38,000					38,000
22	NBD: Façade Improvements	98,000					98,000
23	NBD: Façade Improvements	25,000					25,000
24	Japantown - Parking Lot Lease	22,285					22,285
25	The Alameda - Parking Lease	30,469					30,469
26	The Alameda - Parking Lease	34,121					34,121
27	Arena Employee Parking	61,600					61,600
28	Arena Employee Parking	66,000					66,000
29	The Alameda - Parking Lease	5,015					5,015
30	Automatic Public Toilets	5,618,940					5,618,940
31	Asset Management	14,756					14,756
32	Asset Management	20,383					20,383
33	Asset Management	18,382					18,382
34	Asset Management	2,525					2,525
35	Real Estate & Relocation Services	52,433			52,433	3.0	-
36	Real Estate & Relocation Services	26,571					26,571
37	Miraido	85,004					85,004
38	Competitive Art Capital Fund	11,500					11,500

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

Establishment of Liabilities at 1/31/12
County of Santa Clara Auditor Controller
(Per AB X1 - 26 Section 34182)

Item No.	Project Name or Debt Obligation	Total Liabilities Per Certified ROPS 1/31/2012	Adjustments				Established Per Auditor/Controller 1/31/2012
			Increases		Decreases		
			Amount	Ref	Amount	Ref	
39	Autumn Street Infrastructure	112,354					112,354
40	Center for Employment Training Facility Renovation	13,600					13,600
41	Center for Employment Training	950,000			950,000	3.0	-
42	San Pedro Square Urban Market	600,000					600,000
43	San Jose Innovation Center	1,364,444					1,364,444
44	North San Pedro Housing - Prop 1C	515,706					515,706
45	North San Pedro Housing - Prop 1C	2,094,191					2,094,191
46	North San Pedro Housing - Prop 1C	151,096					151,096
47	North San Pedro Housing - Prop 1C	617,514					617,514
48	4th Street Garage Tenant Improvements	26,000					26,000
49	NBD: Marketing	34,717					34,717
50	San Jose Downtown Association	150,560					150,560
51	Small Business Assistance	20,000					20,000
52	NBD Program Operations	5,000					5,000
53	NBD Program Operations	1,538					1,538
54	NBD Program Operations	5,000					5,000
55	NBD Program Operations	5,000					5,000
56	NBD Program Operations	5,000					5,000
57	NBD Program Operations	5,000					5,000
58	NBD Program Operations	4,422					4,422
59	Purchase & Sale Agreement	9,975					9,975
60	HUD Section 108 Note (Masson/Dr. Eu/Security)	2,077,841					2,077,841
61	HUD Section 108 Note (CIM Block 3/ Central Place)	12,535,478					12,535,478
62	HUD Section 108 Note (Story/King Retail)	16,836,622					16,836,622
63	HUD 108 Loans	499,183					499,183
64	Belovida at Newbury Park - Loan 1	7,084,853					7,084,853
65	Roundtable	208,540					208,540
66	Brookwood Terrace Family Apartments (5)	1,034,395					1,034,395
67	North 4th - Loan 2 (5)	3,376,123					3,376,123
68	Orvieto (5)	1,603,455					1,603,455
69	Ford and Monterey (5)	1,430,000			1,430,000	3.0	-
		$ 81,236,484	$ -		$ 2,752,433		$ 78,484,051

Source: City of San José Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

Establishment of Liabilities at 1/31/12
County of Santa Clara Auditor Controller
(Per AB X1 - 26 Section 34182)

Item No.	Project Name or Debt Obligation	Total Liabilities Per Certified ROPS 1/31/2012	Adjustments: Increases Amount	Increases Ref	Decreases Amount	Decreases Ref	Established Per Auditor/Controller 1/31/2012
Section 3: Administrative Obligations Listed on the ROPS							
1	Personnel	750,000		2.3			750,000
2	Personnel - Unemployment Benefits	344,040					344,040
3	City Support Services	350,000					350,000
4	City Hall Lease	50,000					50,000
5	Agency Activities	33,945					33,945
6	Agency Activities	27,855					27,855
7	Annual Financial Audit	269,362					269,362
8	Agency's Employee Benefit Plan	35,564					35,564
9	Agency's Financial System	48,460					48,460
10	Employee Transition Services	26,750					26,750
11	Agency's Retirement and Deferred Compensation Plans	6,280					6,280
12	Agency's Retirement and Deferred Compensation Plans	51,833					51,833
13	Agency's Operations	4,000					4,000
14	Agency's Operations	5,000					5,000
15	Agency's Operations	37,316					37,316
16	Agency's Operations	8,308					8,308
17	Agency's Operations	50,000					50,000
18	Agency's Operations	17,814					17,814
19	Agency's Operations	3,069					3,069
20	Agency's Operations	35,599					35,599
21	Agency's Operations	138,560					138,560
22	Agency's Operations	150,000					150,000
23	Agency's Operations	20,339					20,339
24	Agency's Lease Obligations/Asset Management (6)	100,000					100,000
		$ 2,564,094	$ -		$ -		$ 2,564,094
Section 4: Enforceable Obligations Not Listed on the ROPS							
1	2011-12 Passthrough to County of Santa Clara	7,542,151		2.4			7,542,151
2	March 2011 Settlement Agreement with County of Santa Clara	26,200,000		2.4			26,200,000
		$ 33,742,151	$ -		$ -		$ 33,742,151
Section 5: City Obligations That May Be Deemed Enforceable Upon Finding of Completion and Oversight Board Approval (Adjusted from Origination to LAIF)							
1	SERAF Loan -	-	10,086,965	2.5			10,086,965
4	Parking Fund Loan	-	6,800,000	2.5			6,800,000
5	Parking Fund Loan II	-	6,728,394	2.5			6,728,394
		$ -	$ 23,615,359		$ -		$ 23,615,359

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

Section 3: Narrative and Explanations of Items

ASSETS

1.1 Cash and Investments – Unrestricted – (Section 1, Lines 1, 6, 8A, 8B)

Unrestricted cash and investments represent funds available for use in redevelopment projects in the San Jose Redevelopment Agency (RDA) and the Successor Agency to the San Jose Redevelopment Agency (Successor Agency). Unrestricted cash and investments has experienced a declining trend over the three comparison points in time as tax increment revenues have declined based on reduced assessed values. In addition, the RDA and the Successor Agency have drawn down on most of the available tax increment revenues to fund and complete existing redevelopment projects. Most of the funds that existed as of January 31, 2012 are to pay for Successor Agency administrative costs and current Housing debt obligations.

Unrestricted cash and investments represent assets acquired by the City of San Jose Housing Department (Housing) through the operation of the Low and Moderate Income Housing Fund and the receipt of housing set-aside revenues from the RDA. Housing intends to use a portion of these assets to repay encumbered obligations for low and moderate income housing projects not currently listed on the July – December 2012 Recognized Obligation Payment Schedules (ROPS). These low and moderate income housing projects were listed on the January – June 2012 ROPS but were removed from the July – December 2012 ROPS based on the California Department of Finance's verbal direction to transfer the assets to the Successor Housing Agency. As such, the encumbered cash and investments associated with these projects have remained with the Successor Housing Agency. The remaining funds are unencumbered and to be remitted to the Successor Agency. In addition, Housing received approximately $2.4 million more from July 2011 through January 2012 in FY 11-12 set-aside deposits than it had on hand at January 31, 2012. Per Health and Safety Code Section 34163(c)(4), the RDA is no longer allowed to make deposits of set-aside revenues into the Low and Moderate Income Housing Fund after June 30, 2011. Since Housing transferred approximately $11 million in set-aside funds to the RDA in January 2012 for the payment of obligations on the ROPS, Housing's combined total of transfers along with cash and investments on hand are more than it received in set-aside deposits; therefore, no obligation is due from Housing to the Successor Agency.

1.2 Unrestricted Housing – (Section 1, Line 9)

Unrestricted housing is addressed in Section 8 along with supporting documentation.

1.3 Cash and Investments – Restricted – (Section 1, Line 7)

Restricted cash and investments consist of current Successor Agency debt obligations, bond reserve requirements, and restricted escrow deposits. The Successor Agency restricts the use of tax increment funds that are needed for current debt service obligations. The Successor Agency currently has bond reserve requirements for six of its outstanding debt issues: Series 2003 Merged Tax Allocation Bonds, Series 2008A Merged Tax Allocation Bonds, Series 2008B Merged Tax Allocation Bonds, Series 2010A Housing Set-Aside Bonds, and Series 2010B Housing Set-Aside Bonds. Funds held to meet debt reserve requirements total approximately $50 million. All other outstanding bonds meet reserve requirements through the insurance policies that are issued by third parties that guarantee payment of debt service if the Successor Agency is unable to do so. The Successor Agency has also restricted assets pursuant to contracts and agreements made by the RDA. These funds are required to be held in escrow accounts that remain the property of the Successor Agency but are restricted for specific purposes. Significant programs with such restrictions include: the Dr. Martin Luther King, Jr. Library, the ACE Charter School, and The 88 Tower Retail and Housing.

Section 3: Narrative and Explanations of Items (Continued)

1.4 Accrued Interest – (Section 1, Line 10)

Accrued interest represents interest earned on funds deposited in interest-bearing accounts. The majority of funds in interest-bearing accounts are held in the City pool and LAIF. Balances vary from year to year depending on the average balances held in interest-bearing accounts and the rate of return earned on such accounts. The general trend in this account has been downward as the Successor Agency draws down its remaining tax increment revenues and unspent bond proceeds to fund and complete existing redevelopment projects.

Due From Other Funds

1.5 Due From the City of San Jose – (Section 1, Line 11)

These balances consist of amounts owed between Housing and the RDA/Successor Agency. Housing's balance is due to the fact that it did not receive the bond proceeds from the Series 2010C Housing Set-Aside Bonds that were available to fund housing set-aside projects when they were issued in FY 09/10. Housing requested these funds in FY 10/11 and spent the proceeds then on housing set-aside projects. The Successor Agency's balances are due to supplemental tax increment revenue adjustments made at the end of each fiscal year. The Successor Agency sends Housing the 20% low-moderate funds based on the initial assessment of tax increment revenues. Adjustments are made at the end of each fiscal year. An adjustment in the amount of $135,147 was made in February 2012 to maintain compliance with this requirement.

The Successor Agency pays the tax increment revenues from its general fund but the source of the low-moderate funds is the special revenue fund. As such, the Successor Agency always records an interfund transaction between the general fund and the special revenue fund until the transaction is settled. In addition, this balance has been increased for an adjustment proposed as part of the analysis of Prepaid Expenses. See the narrative in the Prepaid Expenses section 1.8 for further details.

1.6 Due From Other Agencies – (Section 1, Line 12)

Housing has maintained a balance of $50,906 for the receipt of rental revenues from the Dorchester property that are collected by San Jose State University on behalf of Housing. On March 7, 2012, the City Staff recommended that the account balance be written off. The tenants of the property vacated the premises in 2005 and the property was subsequently sold to San Jose State University. The City Staff determined that the receivable is no longer valid since the property was sold and all of the rental revenue was fully collected. We recommend that the Agency consider writing off the receivable as recorded in the Establishment of Assets schedule in Section 1. The write off of this receivable was recorded in February 2012.

1.7 Other Receivables – (Section 1, Line 13)

Other receivables consist primarily of accounts receivable and rent receivables. Housing had small accounts receivable balances at June 30, 2010 and June 30, 2011 for the repayment of a deferred loan and the collection of other miscellaneous receivables. The Successor Agency provides services to many of the businesses that occupy buildings in redevelopment project areas. The amounts outstanding on most of these accounts are small. One of the larger outstanding accounts receivable is from Japantown Development Limited Partnership (Miraido) for approximately $60,000. On December 2, 2010, the Successor Agency received a Notice of Responsibility from the County of Santa Clara for soil remediation at the Miraido Village Site. The Successor Agency owns the underlying land and leases the site to the Miraido. The clean-up process is currently underway with Miraido's consultant working with the Santa Clara County Department of Environmental Health and the San Francisco Regional Water Quality Control Board on finalizing the details of the clean-up process. The clean-up process is expected to be completed by June 30, 2014. Miraido plans to sell the building at this time in order to repay the funds received from the Successor Agency for the clean-up.

Section 3: Narrative and Explanations of Items (Continued)

The Successor Agency is also the owner of several properties where it leases space to businesses and collects monthly rental income. Similar to the accounts receivable above, most of the balances are small. There are two large outstanding rent receivable balances. One is the Flames receivable for approximately $40,000. Flames incurred monthly rental charges through FY 10/11 but only sporadically made its rent payment. The Successor Agency has been in correspondence with Flames and expects it to repay the outstanding balance by July 2012.

The other large outstanding receivable is the Camera receivable for approximately $100,000. The Successor Agency entered into an amended lease agreement that allowed its lessee to subcontract with Cameras Cinema Management to operate a theater in the facility. The amended lease provided that a portion of the monthly lease was paid directly to the Successor Agency as the landlord of the property. In April 2010, Cameras was close to bankruptcy. As the Successor Agency did not have another theater operator to take over the lease from Cameras and considered it an important anchor to the property, the Successor Agency entered into a second amendment to the lease that allows Cameras to suspend its supplemental lease payment to the Successor Agency from April 2010 through March 2015. As the second amendment was not completed until March 2011, the supplemental rent expense was recorded from April 2010 through March 2011 but not paid. We recommend that the Agency consider writing off this balance as uncollectible as recorded in the Establishment of Assets schedule in Section 1.

1.8 Prepaid Pension Contributions – (Section 1, Line 2)

In July 2011, the Low and Moderate Income Housing Fund made a prepayment to the pension plan representing an estimate of the employer's annual contribution. The unamortized balance of $726,214 represents 5/12ths of that payment and is included on the trial balance at January 31, 2012 as a prepaid expense.

The actual benefit of the prepayment is to Housing as it relieves the agency of the subsequent payment of costs for which they are responsible under ABX1-26. However Section 34176 of the Health and Safety Code does not permit the transfer of such assets to the successor housing agency. Conversely, this prepayment would have no economic value to the Successor Agency as it covers a liability for which the agency is not responsible.

However, had the prepayment not occurred, this would have been available as unrestricted housing cash to be transferred to the Successor Agency. As Housing is deriving an economic benefit and the Successor Agency is deprived of an asset we are reclassifying this as a due from the City of San Jose on the Establishment of Assets Schedule in Section 1.

1.9 SERAF Loan – See Section 9

Given the materiality of this Loan, it is addressed in Section 9 along with supporting documentation.

1.10 Advances to the City of San Jose – (Section 1, Line 15)

Advances to the City of San Jose consist of two items. One is a set of housing loans to the former Executive Director and Assistant Executive Director of the RDA. The loans were issued through a program managed by the City but the loans were guaranteed by funds provided by the RDA. Both the Executive Director and the Assistant Executive Director were terminated from employment with the RDA in FY 10/11. The Executive Director sold his home and repaid the loan to the City. Upon payment, the City reimbursed the RDA for the funds advanced. The Assistant Executive Director did not sell her home until recently and the loan was repaid to the City on May 25, 2012. The Agency expects reimbursement from the City for $250,000 soon.

Section 3: Narrative and Explanations of Items (Continued)

The other advance is from the RDA to the Housing Department. In the early 1990s, the RDA advanced $1 million of a $4 million loan made by the City's Housing Department to the YWCA to provide shelter for women. As the loan does not have a stated interest rate, the advance is recorded at its net realizable value and will be repaid when the loan is collected by the City's Housing Department. Repayment of the loan is dependent on the YWCA generating rental revenues from its occupants. The City's Housing department determined the amount is current and will be paid in the future.

1.11 Advances to Other Funds – (Section 1, Line 4)

Advances to Other Funds are addressed in Section 9 with the SERAF Loan and additional supporting documentation.

1.12 Loans Receivable – (Section 1, Line 3 and Line 14)

Both the Successor Agency and Housing have significant loan portfolios outstanding. The Successor Agency has a loan portfolio with a net value of over $30 million and over 50 loans issued and outstanding. All loans were issued as of June 30, 2010 except for a loan to Urban Markets that was completed in November 2010. This loan resulted in the issuance of two promissory notes for the Lusardi Building and the El Dorado Building for $2.5 million. These loans were to assist in funding redevelopment projects at San Pedro Square. Since all loans were made prior to the dissolution of redevelopment agencies, they appear appropriate. All other activity on the loans between June 30, 2010 and January 31, 2012 was for repayments on existing loans.

Housing has a loan portfolio with a net value of over $250 million and over 150 issued and outstanding. All loans were issued before the RDA freeze date of June 28, 2011. Loans have maturity dates ranging from less than one year to over 50 years. All loans have a reserve between 10-100% of the value of the loan based on the likelihood of collectability. Loans are given to developers to include low and moderate income housing as part of each housing development project.

1.13 Deposits – (Section 1, Line 16)

The Successor Agency has deposits with third parties for properties where it is the lessee and for properties that are in escrow. The most significant lease deposit is approximately $40,000 for a 5-year lease agreement effective through September 2014. The Successor Agency was required to provide the equivalent of the first month's rent as a security deposit.

1.14 Property held for Development Projects – (Section 1, Line 5)

Housing currently maintains 7 properties that are available for development projects. The properties are recorded at the lower of cost or estimated net realizable value. The Vermont property was appraised subsequent to its acquisition. The appraised cost was of the property was approximately $350,000 less than the cost to acquire the property so an adjustment was made in FY 10/11. No other activity has occurred with these properties since June 30, 2010.

ASSET TRANSFERS

1.15 San Jose Diridon Development Authority – (Section 1 – Transfers, Lines 1-7)

On March 4, 2011, the City Council of the City of San Jose (City Council), as the governing body of the RDA, approved a joint powers agreement between the City and the RDA creating the San Jose Diridon Development Authority (Authority). The Authority was established to continue the development and redevelopment of the Diridon Area. The Authority's governing documents give it powers similar to the RDA in order to develop and redevelop the project area. Potential projects that are mentioned for development include high speed rail, BART and a new stadium. The properties listed in the Establishment of Transfers Schedule detail the properties transferred

Section 3: Narrative and Explanations of Items (Continued)

from the RDA to the Authority. The RDA did not impose any requirement on the Authority for development of the properties as a condition of the transfer.

The Authority is a component unit as defined in generally accepted accounting principles. The City Council is named as the governing body of the Authority in its formation documents. Members of the City's management have been assigned similar duties in the Authority. The City Manager has been assigned as the Authority's Executive Director; the City Finance Director as the Authority's Treasurer and Auditor; the City Attorney as the Authority's General Counsel. As a component unit of the City, the Authority is considered part of the City as defined in Health and Safety Code section 34167.10 for purposes of identifying transfers between the RDA and the City.

Section 34163 of the Health and Safety Code documents the limitations on redevelopment agency activities effective June 28, 2011. Among these limitations is that redevelopment agencies can no longer dispose of assets by sale, lease, gift, grant, exchange, transfer, assignment or otherwise, for any purpose. In addition to this limitation on asset transfers, Section 34167.5 of the Health and Safety Code states that the California State Controller (Controller) shall determine whether an asset transfer occurred after January 1, 2011 between a city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency. If such an asset transfer did occur during the period and the government agency that received the assets is not contractually committed to a third party for the expenditure or encumbrance of those assets, the Controller shall order those assets returned to the redevelopment agency or its successor agency. The Controller's letter to Successor Agencies dated April 20, 2012 stated to return the assets to the Successor Agency. The amount added back on Section 1 – Assets have been reconciled on Section 1 – Transfers.

Based on the facts and circumstances described above, the RDA transferred properties to another public agency after January 1, 2011. This transfer of assets must be reversed and returned to the Successor Agency pursuant to AB x1 26 and AB 1484.

1.16 City of San Jose – (Section 1 – Transfers, Lines 8-17)

On March 4, 2011, the City Council, as the governing body of the RDA, approved a cooperation agreement between the City and the RDA providing for the transfer of certain RDA assets. The RDA had acquired the assets in accordance with Section 33445 of the Health and Safety Code to develop the properties for the benefit of the community. The properties listed in the Establishment of Transfers Schedule detail the properties transferred from the RDA to the City. The RDA's original intent in acquiring these properties was to transfer them to the City upon completion of the public facilities. The City and the RDA considered it prudent to transfer these assets at that time given the future uncertainty surrounding the RDA. In addition, the RDA transferred assets to the City in exchange for the old City Hall. This asset was subsequently transferred to the County as part of the legal settlement for past due liabilities.

Section 34163 of the Health and Safety Code documents the limitations on redevelopment agency activities effective June 28, 2011. Among these limitations is that redevelopment agencies can no longer dispose of assets by sale, lease, gift, grant, exchange, transfer, assignment or otherwise, for any purpose. In addition to this limitation on asset transfers, Section 34167.5 of the Health and Safety Code states that the Controller shall determine whether an asset transfer occurred after January 1, 2011 between a city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency. If such an asset transfer did occur during the period and the government agency that received the assets is not contractually committed to a third party for the expenditure or encumbrance of those assets prior to June 28, 2011, the Controller shall order those assets returned to the redevelopment agency or its successor agency. The amount added back on Section 1 – Assets have been reconciled on Section 1 – Transfers.

Section 3: Narrative and Explanations of Items (Continued)

Based on the facts and circumstances described above, the RDA transferred properties to the City after January 1, 2011. This transfer of assets must be reversed and returned to the Successor Agency pursuant to AB x1 26 and AB 1484.

1.17 Other Asset Transfer – (Section 1 – Transfers, Part 4 Line 1)

The RDA completed the transfer of the Old City Hall to the County on June 27, 2011. This transfer was to satisfy the terms and conditions of the March 16, 2011 settlement agreement with the County. The settlement agreement required the RDA to compensate the County for prior years' pass-through payments, administrative fees and interest that had not been paid. Since this transfer was part of a settlement entered by a competent court of law, it appears to be appropriate and in accordance with the Health and Safety Code.

1.18 Asset Disposals – (Section 1 – Transfers, Lines 18-21, 23-25)

The RDA completed the disposal of several properties with third parties other than local government agencies between January 1 and June 15, 2011. All of these disposals were to liquidate RDA assets to fund other redevelopment projects. As these disposals occurred before the RDA freeze date of June 28, 2011, the disposals appear appropriate and in accordance with the Health and Safety Code. The RDA had two asset disposals that occurred after June 28, 2011: one with the Sobrato Organization on August 5, 2011 for the sale of Block 3 Central Place and one with Next Realty on October 12, 2011 for the sale of the Fountain Alley Parking Lot. For the sale of the Block 3 Central Place property to the Sobrato Organization, there was a Purchase and Sale Agreement in effect on March 15, 2011 so the RDA had entered into a legally binding agreement to sell the property prior to the dissolution date and the sale appears to be proper. For the sale of the Fountain Alley Parking Lot to Next Realty, there was a Purchase and Sale Agreement in effect on March 14, 2011 so the RDA has entered into a legally binding agreement to sell the property prior to the dissolution date and the sale appears to be proper.

LIABILITIES

The amounts listed on the ROPS are the sum of all payments including future payments as of the date of the ROPS. Amounts for interest and fees are not included here as those are unknown at this time.

2.1 Debt Obligations Listed on the ROPS

The Successor Agency has several outstanding debt obligations, most of which were issued by pledging future tax increment revenues. Several of these obligations are debt that was issued by the City through the City of San Jose Public Financing Authority, with the RDA agreeing to reimburse the City for the associated costs. The outstanding obligations that are City debt are the 4th and San Fernando Streets Parking Facility Revenue Bonds, the Convention Center Lease Revenue Refunding Bonds, the California Statewide Communities Development Authority Educational Revenue Augmentation Fund Loans, and the HUD Section 108 Loans. Each of these items qualifies as indebtedness obligations in accordance with California Health and Safety Code sections 34171(d)(2) and 34171(e).

2.2 Contractual Obligations Listed on the ROPS

The Successor Agency has several outstanding contractual obligations and loans which qualify as an enforceable obligation in accordance with California Health and Safety Code section 34171(d)(1)(E).

Section 3: Narrative and Explanations of Items (Continued)

2.3 Administrative Obligations Listed on the ROPS

Administrative obligations are subject to the approval of the Oversight Board, ABx1 26 and AB 1484 specify that Successor Agencies may spend $250,000, or up to 5 percent of the amounts allocated to the Successor Agency for administrative expenses in fiscal year 2011–12. In future years, they may spend $250,000, or up to 3 percent of former tax increment revenues subject to approval by the Oversight Board, which has the discretion to approve a lesser amount.

2.4 Enforceable Obligations Not Listed on the ROPS

These amounts were not listed on the original ROPS and have been added as enforceable obligations. Item 1 represents the first-half FY11/12 passthrough to the County of Santa Clara pursuant to a negotiated passthrough agreement, which was unpaid and accumulated as of 1/31/12. Under HSC 34183(b), if there are insufficient funds for the payment of bond debt, this passthrough payment is subordinated to those payments. It is not expected that the Successor Agency will have sufficient resources to make these payments for several years; therefore, it is expected that this liability will grow significantly. In accordance with the agreement, unpaid passthrough amounts accrue penalty interest at 10% per annum. Item 2 represents the liability owed pursuant to a court-entered settlement in March 2011; the settlement agreement sets forth a payment schedule for these owed amounts.

2.5 City Obligations that may be deemed Enforceable upon finding of Completion and Oversight Board of Approval

These amounts represent prior City loans to the Agency, which were invalidated pursuant to HSC 34171(d)(2) and 34178(a). Under AB 1484, these loans may be deemed enforceable obligations upon the Agency's receipt of a "finding of completion" and approval by the Oversight Board. Among other requirements, the restoration of these items requires that they be recalculated from origination at the interest rate earned by LAIF. The adjusted amounts reflect this recalculation through 1/31/12.

AGREEMENTS

3.0 June 28, 2011 Agreements

Per HSC 34177.3, the freeze on RDA activity began on June 28, 2011. A court has confirmed that contracts signed on June 28, 2011 are void under ABX1 26. (Southern California Housing Resource & Development L.L.C. et al. v. State of California (Sacramento Superior Court, Case No. 34-2012-80001171)). On this basis, the City of San Jose should exclude 3 agreements from the list of obligations that were signed on June 28, 2011.

Section 4

Passthrough Obligations

San Jose Redevelopment Agency

This section was completed by County of Santa Clara Finance Agency Staff. All steps detailed in Section D of the AUPs have been satisfactorily completed.

The San Jose Redevelopment Agency has both mandatory passthrough obligations as required by AB 1290 and one contractual passthrough obligation to the County of Santa Clara.

For both FY 2010-11 and FY 2011-12, all statutory passthrough payments were made by the County Auditor-Controller on June 26, 2012. The County's contractual passthrough for FY 2010-11 was not paid because it is the subject of a settlement agreement with the City of San Jose and the Redevelopment Agency. The 2011-12 contractual passthrough to the County of $15,719,157 has not been paid due to the reverse waterfall provisions of Health & Safety Code Section 34183(b) (insufficient funds for servicing bond debt) and will be included in outstanding enforceable obligations with accrued interest at the 10% rate as required in the passthrough agreement. All future passthrough computations and payments will be the responsibility of the County of Santa Clara.

A summary of the passthrough obligations follows:

	FY 2011-12 Contractual Pass-thru	FY 2010-11 AB1290 PT	FY 2011-12 AB1290 PT as of 4/30/12	June 1, 2012 Pass-through Payments Allocation Per Pertinent Code 34183 (a)(1)		
				Contractual Pass-thru	1290 Statutory	Total
County General	15,719,157.00	-	-	15,719,157.00	-	15,719,157.00
County Library		24.76	0.02		24.78	24.78
San Jose City		-	-		-	-
Santa Clara City		-	-		-	-
Evergreen Elem		-	-		-	-
Franklin-McKinley Elem		142,821.40	131,420.86		274,242.26	274,242.26
Morgan Hill Unif		-	-		-	-
Milpitas Unif		-	-		-	-
OakGrove Elem		105,239.02	20,367.39		125,606.41	125,606.41
Orchard Elem		39,260.86	3,089.25		42,350.11	42,350.11
San Jose Unif		498,195.97	469,896.90		968,092.87	968,092.87
Santa Clara Unif		15,543.57	164,177.99		179,721.56	179,721.56
Eastside High		253,322.73	95,461.54		348,784.27	348,784.27
West Valley College		4,494.69	42,677.52		47,172.21	47,172.21

Section 4

	FY 2011-12 Contractual Pass-thru	FY 2010-11 AB1290 PT	FY 2011-12 AB1290 PT as of 4/30/12	June 1, 2012 Pass-through Payments Allocation Per Pertinent Code 34183 (a)(1)		
Gavilan Comm College		-	-		-	-
San Jose Comm College		291,878.96	206,546.52		498,425.48	498,425.48
County School Server		145,993.21	112,355.68		258,348.89	258,348.89
Central Fire		82.52	0.11		82.63	82.63
SCVWD Central		-	-		-	-
SCVWD East		-	-		-	-
SCVWD General		-	-		-	-
Bay Area Air Quality Mgmt		8,371.86	6,769.42		15,141.28	15,141.28
Guadalupe-Coyote Res Cons Dist		392.69	183.12		575.81	575.81
SJ Maintenance Dist 1		-	-		-	-
SC-Bridge Dist 1		-	-		-	-
SCVWD St Water Project		-	-		-	-
SCVWD Zone W-4		-	-		-	-
Passthrough reserve for ERAF payment (pending for LA Unified case method)			101,634.81		101,634.81	101,634.81
	15,719,157.00	1,505,622.24	1,354,581.13	15,719,157.00	2,860,203.37	18,579,360.37
Deduction due to Reverse Waterfall (H&S 34183 (b))	(15,719,157.00)	-	-	(15,719,157.00)	-	(15,719,157.00)
Total Pass-Thru Payments after Reverse Waterfall	-	1,505,622.24	1,354,581.13	-	2,860,203.37	2,860,203.37

Section 4

Please note that the below taxing entities are subject to the qualified deduction according to the San Jose Successor Agency's instruction.

The above pass-thru distribution is net of the below qualified deduction.

	FY2010-11 Qualified Deduction	FY2011-12 Qualified Deduction	Total Qualified Deduction
San Jose City	(618,649.06)	(393,658.59)	(1,012,307.65)
San Jose Unif	(652,372.08)	(615,315.34)	(1,267,687.42)
SCVWD Central	(41,499.09)	(41,395.20)	(82,894.29)
SCVWD East	(19,418.72)	(8,610.32)	(28,029.04)
SCVWD General	(9,067.01)	(5,999.86)	(15,066.87)
SCVWD St Water Project	(59,642.53)	(32,442.15)	(92,084.68)
SCVWD Zone W-4	(6,196.88)	(4,606.76)	(10,803.64)
Total	(1,406,845.37)	(1,102,028.22)	(2,508,873.59)

City of San Jose Redevelopment Agency

Analysis of Assets, Liabilities and Transfers as of June 30, 2010; June 30, 2011; and January 31, 2012
County of Santa Clara Auditor-Controller

(Per ABX1-26 Section 34177)
(In Thousands)

		Redevelopment Agency			Housing Activities			Total				
No.	Description	Audited 6/30/2011	Un-Audited 1/31/2012	Change 6/30/11 - 1/31/12	Audited 6/30/2011	Un-Audited 1/31/2012	Change 6/30/11 - 1/31/12	Audited 6/30/2011	Un-Audited 1/31/2012	Change 6/30/11 - 1/31/12	Note	REF. #
	ASSETS											
1	Cash and Investments - unrestricted	$ 14,938	$ 8,551	$ (6,387)	$ 39,611	$ 15,029	$ (24,582)	54,549	23,580	$ (30,969)	A	6-1
2	Cash and Investments - restricted	$ 148,076	$ 120,521	$ (27,555)	1,302	-	$ (1,302)	149,378	120,521	$ (28,857)	B	6-1
	Receivables											
3	Accrued Interest	$ 67	$ 4,343	$ 4,276	1,434	1,345	$ (89)	1,501	5,688	$ 4,187	C	6-2
4	Due from other funds	$ 135	$ 135	$ -	-	-	$ -	135	135	$ -		6-3
5	Due from the City of San Jose	$ 179	$ 179	$ -	-	-	$ -	179	179	$ -		6-3
6	Due from other agencies	$ -	$ -	$ -	51	51	$ -	51	51	$ -		1-1
7	Other	$ 424	$ 259	$ (165)	29	-	$ (29)	453	259	$ (194)	D	6-4
8	Loans receivable	$ 34,035	$ 30,561	$ (4,274)	$ 258,972	$ 261,747	$ 2,775	293,007	292,308	$ (1,499)	E	6-6
9	Advances to the City	$ 830	$ 830	$ -	$ -	$ -	$ -	830	830	$ -		6-5
10	Advances to other funds	$ -	$ -	$ -	$ 67,255	$ 67,255	$ -	67,255	67,255	$ -		6-8
11	Prepaid expenses	$ -	$ -	$ -	$ -	$ 726	$ 726	-	726	$ 726	F	
12	Other assets	$ 155	$ 155	$ -	$ 20,771	$ 20,771	$ -	20,926	20,926	$ -		6-7, 6-9
	Total Assets	$ 199,639	$ 165,534	$ (34,105)	$ 389,425	$ 366,924	$ (22,501)	$ 589,064	$ 532,458	$ (56,606)		
	LIABILITIES											
13	Accounts payable	2,588	611	$ (1,977)	$ 778	$ -	$ (778)	3,366	611	$ (2,755)	G	6-10
14	Accrued payroll	931	-	$ (931)	$ 570	$ -	$ (570)	1,501	-	$ (1,501)	H	6-10
15	Deposits, retentions, and other payables	957	897		$ -	$ -		957	897	$ (60)	J	6-14
16	Advances from other funds	-	-	$ -	$ 14,671	$ 14,671	$ -	14,671	14,671	$ -		6-16
17	Due to the City of San Jose	1,061	1,739	$ 678	$ -	$ -	$ -	1,061	1,739	$ 678	K	6-11
18	Due to the County of Santa Clara	-	7,542	$ 7,542	$ -	$ -	$ -	-	7,542	$ 7,542	L	6-12
19	Deferred revenue	31,529	34,057	$ 2,528	$ 9,397	$ 9,333	$ (64)	40,926	43,390	$ 2,464	M	6-13
20	Unearned revenue	2,803	-	$ (2,803)	$ -	$ -	$ -	2,803	-	$ (2,803)	M	6-13
21	Due to other funds	$ 135	$ 135	$ -	$ 135	$ -	$ (135)	270	135	$ (135)	N	6-3
22	Due to other agencies	$ 1,506	$ 1,505	$ (1)	$ -	$ -	$ -	1,506	1,505	$ (1)		6-15
	Total Liabilities	$ 41,510	$ 46,486	$ 5,036	$ 25,551	$ 24,004	$ (1,547)	67,061	$ 70,490	$ 3,430		
	Fund Balances	$ 158,129	$ 119,048	$ (39,141)	$ 363,874	$ 342,920	$ (20,954)	$ 522,003	$ 461,968	$ (60,036)		

Note:

A Agency cash and investments decreased primarily due to the debt service payments made to the bond trustee and the low-moderate payments made to the Housing Department, net of tax increment receipts received. Housing cash and investments decreased due to the decrease in tax increment revenues received. The Housing Department received $36 million in FY 2010/2011 but has only received $17 million in FY 2011/2012.

B Agency cash and investments decreased primarily due to the debt service payments made to the bond trustee and the low-moderate payments made to the Housing Department, net of tax increment receipts received. The Housing cash and investments of $1.3 million that were received in the prior year were used to fund the matching requirement for the $3 million FEMA grant to provide seismic safety upgrades to mobile homes in San Jose ($1 million) and to rehabilitate the Vermont Street Housing Development that is currently vacant and in need of substantial rehabilitation in order to be occupied ($300,000).

C Accrued interest balances represent interest earned on funds deposited in the City pool. Balances vary from year to year based on average balances held in the pool and the rate of return that the pool is able to receive on its investments. The Agency accrues interest related to loans in this account during the year, then transfers this accrued interest to loans receivable as part of its year-end close process. Since 1/31/12 is not a year-end date, the accrued interest related to loans receivable has not been transferred.

D The Agency's other receivables decreased due to the repayment of outstanding accounts and rent receivable balances. None of the individual accounts or repayments are significant. In FY 10/11, the Housing Department accrued approximately $29,000 for the repayment of a deferred loan and miscellaneous revenues earned. The accrual was reversed in FY 11/12 upon collection of the funds.

E Agency loans receivable decreased due to loan repayments on several outstanding loans. None of the individual payments are significant and the Agency has a large loan portfolio with many outstanding loans. Housing loans receivable increased due to adjustment to reduce the loan reserve on certain loans net of loan repayments on several outstanding loans. None of the individual adjustments or payments are significant and Housing has a large loan portfolio with many outstanding loans.

F The Housing Department prepaid the annual retirement contribution that is amortized on a monthly basis throughout the fiscal year.

G The Agency's accounts payable decreased due to the reduced scope of operations and project costs incurred. Accounts payable balances relate primarily to the administration of operation costs necessary to maintain the remaining Agency staff. Housing's accounts payable were reduced to zero as the administrative costs of maintaining the housing fund were transferred to another City fund.

H The Agency's accrued wages decreased because it only accrues wages as part of its year-end close. Housing's accrued wages were reduced to zero as the personnel costs of maintaining the housing program were transferred to another City fund.

J The decrease in Agency deposits is due to the completion of façade improvement and redevelopment projects that require deposits during the projects and are released by the Agency upon completion of the projects.

K The City paid the Agency's HUD 108 loan payments that were due in the first half of FY 11/12. The City does not anticipate repayment of this amount and it has been removed from the Agency's asset schedule.

L The increase in the Due to the County of Santa Clara is due to the first half of FY 11/12 pass-through that the Agency owes the County.

M The Agency's deferred and unearned revenue generally represents an offset to the loans receivable and developer contributions recorded as assets, as most of the loans are not considered collectible within the following fiscal year. The amount is not consistent with the change in loans receivable because the Agency does not reclassify interest earned but not paid on loans from accrued interest to loans receivable until the end of the year. It also does not reclassify unearned revenues from deferred revenues until the end of the year. These adjustments will make deferred revenues consistent with loans receivable. Housing's deferred revenues decreased due to payment on two loans that had previously been offset with deferred revenue.

N Housing's due to other funds decreased because there is no accrual for the Supplemental Teeter in the middle of the fiscal year.

Source: City of San Jose Redevelopment Agency and City of San Jose Housing Department

City of San Jose Redevelopment Agency

Analysis of Assets, Liabilities and Transfers as of June 30, 2010; June 30, 2011; and January 31, 2012
County of Santa Clara Auditor-Controller

(Per AB X1-26 Section 34177)
(In Thousands)

No.	Description	Redevelopment Agency 6/30/2010	Redevelopment Agency 6/30/2011	Redevelopment Agency Change 6/30/10 - 6/30/11	Housing Activities 6/30/2010	Housing Activities 6/30/2011	Housing Activities Change 6/30/10 - 6/30/11	Total 6/30/2010	Total 6/30/2011	Total Change 6/30/10 - 6/30/11	Note	REF. #
	ASSETS											
1	Cash and investments - unrestricted	55,661	14,938	$ (40,723)	49,813	39,611	$ (10,202)	105,474	54,549	$ (50,925)	P	6-1
2	Cash and investments - restricted	192,041	148,076	$ (43,965)	-	1,302	$ 1,302	192,041	149,378	$ (42,663)	Q	6-1
	Receivables											
3	Accrued interest	240	67	$ (173)	1,365	1,434	$ 69	1,605	1,501	$ (104)	R	6-2
4	Due from other funds	21	135	$ 114	10,001	-	$ (10,001)	10,022	135	$ (9,887)	S	6-3
5	Due from the City of San Jose	22	179	$ 157	-	-	$ -	22	179	$ 157	S	6-3
6	Due from other agencies	-	-	$ -	51	51	$ -	51	51	$ -		1-1
7	Other	1,691	424	$ (1,267)	30	29	$ (1)	1,721	453	$ (1,268)	T	6-4
8	Loans receivable	32,836	34,835	$ 1,999	251,951	258,972	$ 7,021	284,787	293,807	$ 9,020	U	6-6
9	Advances to the City	1,080	830	$ (250)	-	-	$ -	1,080	830	$ (250)	V	6-5
10	Advances to other funds	-	-	$ -	52,721	67,255	$ 14,534	52,721	67,255	$ 14,534	W	6-8
11	Prepaid expenses	-	-	$ -	-	-	$ -	-	-	$ -		
12	Other assets	267	155	$ (112)	21,118	20,771	$ (347)	21,385	20,926	$ (459)	X	6-9
	Total Assets	283,859	199,639	$ (84,220)	387,050	389,425	$ 2,375	670,909	589,064	$ (81,845)		
	LIABILITIES											
13	Accounts payable	$ 7,448	$ 2,588	$ (4,860)	$ 394	$ 778	$ 384	7,842	3,366	$ (4,476)	Y	6-10
14	Accrued payroll	$ 364	$ 931	$ 567	$ 474	$ 570	$ 96	838	1,501	$ 663	Z	6-10
15	Deposits, retentions, and other payables	$ 1,700	$ 957	$ (743)	$ -	$ -	$ -	1,700	957	$ (743)	AA	6-14
16	Advances from other funds	$ -	$ -	$ -	$ 580	$ 14,671	$ 14,091	580	14,671	$ 14,091	BB	6-16
17	Due to the City of San Jose	$ 1,360	$ 1,061	$ (299)	$ -	$ -	$ -	1,360	1,061	$ (299)	CC	6-11
18	Due to the County of Santa Clara	$ 47,211	$ -	$ (47,211)	$ -	$ -	$ -	47,211	-	$ (47,211)	DD	6-12
19	Deferred revenue	$ 29,293	$ 31,529	$ 2,236	$ 7,486	$ 9,397	$ 1,911	36,779	40,926	$ 4,147	EE	6-13
20	Unearned revenue	$ 3,315	$ 2,803	$ (512)	$ -	$ -	$ -	3,315	2,803	$ (512)	EE	6-13
21	Due to other funds	$ 21	$ 135	$ 114	$ 92	$ 135	$ 43	113	270	$ 157	FF	6-3
22	Due to other agencies	$ 3,648	$ 1,506	$ (2,142)	$ -	$ -	$ -	3,648	1,506	$ (2,142)	GG	6-15
	Total Liabilities	$ 94,360	$ 41,510	$ (50,708)	$ 9,026	$ 25,551	$ 16,525	$ 103,386	$ 5,824	$ (34,183)		
	Fund Balances	$ 189,499	$ 158,129	$ (33,512)	$ 378,024	$ 363,874	$ (14,150)	$ 567,523	$ 583,240	$ (47,662)		

P The Agency's cash and investments decreased primarily due to lower than expected tax increment revenues collected to fund existing redevelopment project costs. The Assessor determined that assessed property values declined by 7% compared to the prior year. For Housing, the City issued Housing Set-Aside Bonds Series A through C in 2010 that caused debt service payments to increase in 2011. This balance is primarily for repayment of debt obligations.

Q The Agency's cash and investments decreased primarily due to the drawdown of over $30 million of unspent bond proceeds to fund existing redevelopment project costs and to fund the settlement agreement with the County of Santa Clara. The increase in Housing's cash and investments is due to a repayment from the Lucretia Gardens project that was funded by bond proceeds.

R Accrued interest balances represent interest earned on funds deposited in the City pool. Balances vary from year to year based on average balances held in the pool and the rate of return that the pool is able to receive on its investments.

S The increases in the Agency's Due From Other Funds and Due From the City represent the Agency's overpayment of low-moderate income housing funds to the City's Housing Department. Housing's Due From Other Funds balance in 2010 represents unspent bond proceeds from the Housing Set-Aside Bonds Series C that were held by the RDA and transferred to the Housing Department in 2011.

T Other receivables decreased due to the repayment of outstanding accounts receivable with significant balances. In particular, the Agency was able to collect a receivable for $800,000 for the Porter Stock Insurance Proceeds and $450,000 for the sale of the 445 Old West Julian Street property. See the Other Receivable tab for further details.

U The Agency's loans receivable increased approximately $2 million due primarily to the Agency loan to Urban Markets for the development of the San Pedro Square project. Housing's loans receivable increased approximately $7 million due primarily to the issuance of five new low-moderate income housing loans to developers. All loans were made prior to the dissolution date of the Agency.

V Advances to the City decreased by $250,000 because the former Executive Director repaid his home loan to the City shortly after his termination. The City subsequently repaid the Agency, which had funded the loan. See the Advances to the City tab for further details.

W These balances represent the loans made to the RDA to make the SERAF payments in 2010 and 2011.

X The Agency's other assets decreased primarily due to the release of the deposit related to the sale of the Block 2 and Block 8 properties. Housing's other assets consist of properties held for development projects. The decrease in 2011 is due to an appraisal on the Vermont property that reduced its carrying value.

Y The Agency's accounts payable decreased due to the reduced scope of operations and project costs incurred. Housing accounts payable increased approximately $400,000 due to the check run schedule changing from weekly to bi-weekly in FY 10/11.

Z The Agency's accrued wages increased due to the change in the payroll cutoff date at year-end increasing from 3 unpaid days in the prior year to 4 unpaid days in the current year couple with termination payments to Agency staff eliminated at the end of the fiscal year. Housing's accrued wages increased approximately $100,000 as the payroll cutoff date at year-end consisted of 4 unpaid days compared to 3 unpaid days in the prior year.

AA The decrease in deposits is due to the completion of façade improvement and redevelopment projects that require deposits during the projects and are released by the Agency upon completion of the projects. See the Deposits tab for further details.

BB This balance represents loans from the City to fund the SERAF loan to the RDA. The loan in FY 10/11 was funded through City funds.

CC The decrease in Due to the City of San Jose is due to the reduction of payments due from project service memorandums issued as part of cooperation agreements between the Agency and the City. The Agency has in the past entered into cooperation agreements with the City to fund various projects on behalf of the City and to reimburse the City for the actual salaries and fringe benefits of employees who work under the supervision of the Agency.

DD The decrease in Due to the County of Santa Clara is due to the repayment of prior years' pass-through tax increments revenues, County administration fees, and interest on the past due balances. The Agency lost a lawsuit that required it to repay the balance recorded in FY 09/10 by utilizing unspent bond proceeds and unrestricted funds, and transferring the Old City Hall property acquired from the City.

EE The Agency's deferred and unearned revenue generally represents an offset to the loans receivable and developer contributions recorded as assets respectively, as most of the loans are not considered collectible within the following fiscal year. The increase is generally in line with the increase in loans receivable. The increase in Housing's deferred revenue is due to the interest and fees for the SERAF loan. Since the loan was issued in FY 09/10, FY 10/11 was the first full year to record interest and fees.

FF The increase in Due to Other Funds represent the Agency's overpayment of low-moderate income housing funds to the City's Housing Department. Housing owes the amount to the Agency based on the Supplemental Teeter calculation which varies from year to year.

GG The decrease represents the change in the amount of AB 1290 revenues that the Agency is required to pass-through to the County. The amounts are calculated based on the amount of tax increment revenue earned from properties based on assessment.

	TRANSFERS	2010 TRANSFERS FROM	2010 TRANSFERS TO		2011 TRANSFERS FROM	2011 TRANSFERS TO	
35	General		$ 8,200,000	HH		$ 3,240,913	HH
36	Special Revenue		$ 21,076	JJ			
37	Housing Debt Service						
38	Merged Debt Service		$ 5,832,049	KK		$ 33,921,863	KK
39	Capital Projects	$ 14,053,125		LL	$ 37,162,776		MM
40	City of San Jose						
	Total Transfers	$ 14,053,125	$ 14,053,125		$ 37,162,776	$ 37,162,776	

HH This transfer is to cover general and administrative costs for the Capital Projects Fund that were paid out of the General Fund.

JJ This transfer is the amount of the Supplemental Teeter adjustment that Housing owes the Agency. Since the payment from Housing is received in the General Fund, there is a transfer between these funds.

KK This transfer is the net transfer from the Capital Projects Fund to the Merged Debt Service Fund to make the required debt service payments.

LL This transfer is the sum of the transfers documented in Notes HH, JJ and KK above.

MM This transfer is the sum of the transfers documented in Notes HH and KK above.

Source: City of San Jose Redevelopment Agency and City of San Jose Housing Department

San Jose Redevelopment Agency
Fixed Asset Master List
as of 6/30/2011

County of Santa Clara (Deed of Trust)
HUD Collateral
JP Morgan Collateral

Account No	Asset No	Description	APN No	Property Address	Sit. Date	6/30/09 Ending Balance	6/30/10 Ending Balance	ADDITION	TRANSFER TO CSJ	Purpose of transfer	DISPOSITION	Balance Per 6-30-11
10.1601	10008	Land - Civic Center Development Site	467-20-014	167-175 E. Santa Clara	7/13/2001	1,503,750	1,503,750.00					1,503,750.00
10.1601	10010	Land - Civic Center Development Site	467-20-082	159 E. Santa Clara	7/23/2001	1,086,228	1,086,228.58					1,086,228.58
10.1601	10011	Land - Civic Center Development Site	467-20-083	189 E. Santa Clara	7/23/2001	1,465,074	1,465,074.05					1,465,074.05
10.1601	10012	Land - Civic Center Development Site	467-20-010	21 N. 5th St.	7/27/2001	2,432,170	2,432,169.85					2,432,169.85
10.1601	10013	Land - Civic Center Development Site	467-20-013	181 E. Santa Clara	7/13/2001	922,542	922,541.79					922,541.79
10.1601	10032	Land - West Julian	259-27-008	551 West Julian	8/31/2001	975,819	975,819.34					975,819.34
10.1601	10043	Land - Civic Center Development Site	467-20-086 (old -007)	38 N. 5th St.	9/20/2001	737,699	737,698.81					737,698.81
10.1601	10067	Land - Civic Center Development Site	467-20-087 (old -016)	40 N. 4th St.	1/24/2002	1,728,974	1,728,973.94					1,728,973.94
10.1601	10096	Land - Anti Graffiti Office	254-31-037	501 Vine Street	8/15/1996	310,909	310,909.35					310,909.35
10.1601	10117	Land - Brandenburg Mixed Use			3/21/2003	16,607,216	16,607,216.19					16,607,216.19
10.1601	10126	Land - Camera 1/2 Fish Bldg	467-46-075	366 S. 1st Street, San Jose	12/9/2003	1,075,927	1,075,927.13					1,075,927.13
		Downtown Mixed-Used - 105 S.										
10.1601	10137	Montgomery (Stephens Meat Parking Lot)	261-35-010,003,006	105 S. Montgomery St.,	2/2/2006	6,356,158	6,356,157.78		6,356,157.78	Diridon Authority		
10.1601	10139	Downtown Mixed-Used - 115 S. Autumn	259-48-011/013	115 S. Autumn Street/510 W. San Fernando	6/30/2007	6,118,652	6,345,391.03		6,345,391.03	Diridon Authority		
10.1601	10140	Downtown Mixed-Used- 150 S. Montgomery	259-48-053	150 S. Montgomery St.	6/21/2006	6,250,860	6,250,860.00		6,250,860.00	Diridon Authority		
10.1601	10152	Land - 500 S. 1st Street	472-25-037	500 South First Street		2,400,987	2,420,966.50		2,420,966.50	City Hall Exchange		
10.1601	10153	Land - San Jose Stage	467-47-098	490 South First Street		983,995	983,994.95					983,994.95
10.1601	10154	Land - Market Gateway Housing	264-30-119	525 South Market Street		3,253,517	3,253,517.01					3,253,517.01
10.1601	10156	Land - Century Housing	467-22-153	33 South 3rd Street		4,281,701	4,281,701.04					4,281,701.04
10.1601	10157	Land - Japantown Miraido	249-38-051	260 Jackson Street	1/1/1997	5,350,115	5,350,115.00					5,350,115.00
10.1601	10158	Land - 101 San Fernando	467-23-096	101 San Fernando	4/23/1998	7,010,500	7,010,500.00				7,010,500.00	
10.1601	10159	Land - Fountain Alley Parking Lot	467-22-121	35 S. 2nd St.,	1/1/1994	3,570,095	3,570,095.14					3,570,095.14
10.1601	10161	Land - Median Heritage Plaza - Rabal Lot	481-13-057	Alum Rock	1/1/1995	368,593	368,593.24					368,593.24
10.1601	10162	Land - Hendhott parking Lot	251-23-064	1343 The Alameda	6/30/2002	426,632	426,631.50					426,631.50
10.1601	10163	Land - Little Portugal Parking Lot	481-13-008	30 Eastwood Ct.	12/7/1991	3,900	3,900.00					3,900.00
10.1601	10164	Land - SCVWD Easement	259-37-042	W. San John Street	7/1/1997	27,957	27,957.17					27,957.17
10.1601	10165	Land - Rytand Park (under Coleman overhang)	253-20-054	75 Bassett St	9/6/1990	463,253	463,252.62					463,252.62
10.1601	10167	Land - GRP/Freeway Landscape	264-26-099/259-45-082/094	333 Prevost St	1/1/1996	5,831,917	5,831,917.31					5,831,917.31
10.1601	10169	Land - Camera 12	467-46-105	201 S 2nd St.	1/1/1995	563,101	563,101.09					563,101.09
10.1601	10170	Land - The Colonade (retail)	467-45-073 thru 075; 085,087,088	201 S. 4th Street	1/1/1969	1,496,466	1,496,466.16				1,496,466.16	
10.1601	10171	Land - Block 3 (Central Place)	467-22-156	2nd Street & San Fernando	1/1/1969	2,424,181	2,424,180.50					2,424,180.50
10.1601	10172	Land - Block 1 Fairmont Hotel Plaza	259-41-087/88	First Street & San Antonio	1/1/1970	2,240,955	2,240,955.20		2,240,955.20	City Hall Exchange		
10.1601	10173	Land - Block 1 Fairmont Hotel Annex	259-56-002 thru 004	First Street & San Antonio	1/1/1998	4,000,000	4,000,000.00				4,000,000.00	
10.1601	10174	Land - Avenia Parking Lot	259-38-130	8 S. Montgomery	6/30/1992	1,588,087	1,588,087.11		1,588,087.11	Diridon Authority		
10.1601	10175	Land - Civic Center Development Site	467-20-008/009	31-33 N. 5th Street	6/25/2001	1,071,762	1,071,751.60					1,071,751.60
10.1601	10177	Land - California Theater	264-29-114/055	345 South First Street	9/1/1985	814,890	814,890.49		814,890.49	CSJ for public project		
10.1601	10178	Land - Downtown Mixed-Used - 102 S. Montg	259-48-012	102 South Montgomery	5/17/2007	901,590	1,176,586.52	119,666.66	1,293,256.18	Diridon Authority		
10.1601	10179	Land - Downtown Mixed-Used - 92 S. Montgo	259-38-019	92 South Montomgery/547 W. San Fernd	5/17/2007	1,349,483	1,357,583.34	6,075.00	1,363,658.34	Diridon Authority		
10.1601	10181	Land - North San Pedro/Brandenburg - 331 T	259-24-019	331 Fontana St	9/24/2007	1,467,485	1,467,484.80					1,467,484.80
10.1601	10182	Land - North San Pedro/Brandenburg - 255 B	259-23-022	255 Bassett Street	9/24/2007	198,000	198,000.00					198,000.00
10.1601	10184	Land - Plaza Hotel	259-48-071	96 S. Almaden Ave	4/14/2008	2,212,794	2,212,794.24					2,212,794.24
10.1601	10197	Land - Downtown Mixed-Used - KNTV 645 Pa	261-35-014	645 Park Avenue	6/25/2008	6,000,000	6,000,000.00		6,000,000.00	Diridon Authority		
10.1601	10199	Land - Hoffman/ Via Monte Community Cente	567-52-028 and 029	1171 Meso/5647 Gallup Drive		2,211,175	2,211,174.94					2,211,174.94
10.1601	10202	Land - Westinghouse lot	259-26-028	610 West Julian and 292 Stockton	2/3/2009	82,937	82,937.00					82,937.00
10.1601	10205	Land - Autumn St Extension	259-29-041	456 Autumn Ct	4/9/2009	377,066	377,066.00		377,066.00	CSJ for public project		
10.1601	10207	Land - Old Fire Station #1	259-33-077	201 N. Market Street	1/5/1998							
10.1601	10208	Marriott Hotel (Business Interest)	264-29-111	301 S. Market Street								
10.1601	10209	Land - Autumn St Extension (445 W. Julian)	259-25-003	445 Old West Julian Street	4/1/2010		1,015,507.00	4,880.00			1,020,387.00	
10.1601	10211	Land - Autumn St Extension (Akatiff Properties)			6/1/2010		4,919,814.00	50,000.00	4,969,814.00	CSJ for public project		
10.1601	10213	Land - Autumn St Extension (435 W. Julian)	259-25-002	435 Old West Julian Street	6/22/2010		402,443.00	(1,690.00)	400,753.00	CSJ for public project		
10.1601	10216	Old City Hall Transferred to County of Santa Clara			6/30/2011			444,374.00			444,374.00	
10.1601 Total						136,459,277	117,112,507.41	620,305.66	40,121,667.63		13,971,727.16	63,939,418.28

ATTACHMENT A

San Jose Redevelopment Agency
Fixed Asset Master List
as of 6/30/2011

County of Santa Clara (Deed of Trust)
HUD Collateral
JP Morgan Collateral

Account No.	Asset No.	Description	APN No.	Property Address	K/L Date	6/30/09 Ending Balance	6/30/10 Ending Balance	ADDITION	TRANSFER TO CS	Purpose of transfer	DISPOSITION	Balance Per 6-30-11
10.1651	10025	Land - Parking Lot on Vine St & Wez Way (Convention Center)	264-31-068/101/109	Wez Way	3/10/1986	3,377,573	3,377,572.83					3,377,572.83
10.1651	10034	Land - Joss Theatre	467-22-137	64. S. 2nd Street	2/25/2000	845,820	845,820.00					845,820.00
10.1651	10062	Land - Balbach Parking Lot	264-30-010 thru 028 and 135	425 S. Market St	8/4/2000	14,557,943	14,557,943.02		14,557,943.02			-
10.1651	10119	Land - Parking Lot/Sidewalk on Wez Way (Boston Properties) (Convention Center)	264-28-023, 144, 153 and 158	293 Balbach Street (Almaden Blvd)	1/25/1988	1,240,523	786,264.31					786,264.31
10.1651	10151	Land - The Billy DeFrank Center	261-32-074	938 The Alameda		2,077,491	2,077,491.15					2,077,491.15
10.1651	10176	Land - Hilton Hotel (Convention Center)	264-29-109	300 Almaden Blvd	10/30/1987	1,304,000	1,304,000.00					1,304,000.00
10.1651 Total							22,949,061.31		14,557,943.02			8,391,118.29
10.1652	10217	Old City Hall Building (Transferred to County of Santa Clara)			6/30/2011			8,059,792.00			8,059,792.00	
10.1652 Total								8,059,792.00			8,059,792.00	-
10.1652	10145	Building - CA Theatre-Opera San Jose				74,334,734	74,334,733.86	49,469.00	74,384,202.86			-
10.1652	10146	Building - Joint Library				64,785,278	64,785,277.95					64,785,277.95
10.1652	10147	Building - Joss Theatre				7,155,774	7,155,773.66					7,155,773.66
10.1652	10183	Building - Billy DeFrank Community Ctr	261-32-074	938 The Alameda	6/30/2007	1,070,435	1,070,435.43					1,070,435.43
10.1652	10198	Building - Central Place Parking				20,510,000	20,510,000.00					20,510,000.00
10.1652 Total							167,856,220.92	49,469.00	74,384,202.86			93,521,487.06
10.1659	10148	Bldg Impvt - Temp. Convention Ctr. Expansion				7,113,558	7,149,195.30		7,149,195.30			-
10.1659	10152	Bldg Impvt - Convention Ctr. Expansion Phase I				11,019,505	16,140,013.53					16,140,013.53
10.1659	10168	Bldg Impvt - Civic Auditorium			5/1/2007	2,677,854	7,482,947.42	4,058,474.14				11,541,421.56
10.1659		Bldg Impvt - Montgomery Theater Impvt.						374,740.00				374,740.00
10.1659	10201	Bldg Impvt - MACLA (500 S. 1st Street)	472-26-037	500 South First Street	9/23/2008	23,500	153,500.00	-	153,500.00			-
10.1659	10203	Bldg Impvt - SJ Stage (490 S. 1st Street)	472-26-037	500 South First Street	9/23/2008	107,985	107,985.00					107,985.00
10.1659 Total						193,958,525	31,033,841.25	4,433,214.14	7,302,695.30		-	28,164,160.09
10.1653	10098	Leasehold Imprvts. - Fairmont Annex Retail			10/31/2003	1,888,250	1,888,250.00				1,888,250.00	
10.1653 Total						1,888,250	1,888,250.00				1,888,250.00	-
10.1604	10026	GRP Improvements/Flood Control			8/10/2001	5,900	18,927.50					18,927.50
10.1604	10123	CIP - 4th Street Garage Marketing & Tenant			6/30/2003	2,056,567	2,056,567.09	260,000.00				2,316,567.09
10.1604	10185	CIP - Brandenburg Street Realignment			12/1/2007	636,831	976,695.87	-				976,695.87
10.1604	10191	CIP - Westinghouse Bldg (Demo & Parking Lo	259-28-028	510 W Julian/292 Stockton Ave		114,395	227,599.50	-				227,599.50
10.1604	10200	CIP - Edenvale Community Center				4,792,341	14,934,743.71	641,394.50				15,576,138.21
10.1604	10204	CIP - Hoffman/ Via Monte Community Center				58,785	286,542.21	24,475.00				311,017.21
10.1604	10206	CIP - Municipal Stadium	477-35-003			-82,500	-226,000.00	334,750.00				560,750.00
10.1604 Total - CIP						7,755,919	18,727,075.88	1,260,649.50	-		-	19,987,725.38
10.1655	10005	Fairmont Garage Parking Structure			7/21/2001	10,000,000	10,000,000.00		10,000,000.00			-
10.1655 Total							10,000,000.00		10,000,000.00			-
10.1605	10186	St. James Park Improvements				253,000	272,670.00					272,670.00
10.1605 Total - CIP						10,253,000	272,670.00	-	-		-	272,670.00
10.1657	10007	Equipment - Agency				71,459	71,459.07					71,459.07
10.1657	10144	Biebach Center Capital Equipment				1,073,498	1,073,497.60					1,073,497.60
10.1657 Total						1,144,957	1,144,956.67	-	-		-	1,144,956.67
10.1609	10189	Bldg Impvt - Camera 1/2 Fish Bldg re-roof	467-46-075	365 South First Street	12/1/2007	-	-					-
10.1609	10190	Bldg Impvt - Fallon House			12/1/2007	92,861	153,845.89					153,845.89
10.1609	10193	Bldg Impvt - Children Discovery Museum			2/1/2008	166,864	166,864.00					166,864.00
10.1609	10194	Bldg Impvt - Center for Performing Arts			3/3/2008	31,705	34,525.00					34,525.00
10.1609 Total - CIP							355,254.89	-	-		-	355,254.89

ATTACHMENT A

San Jose Redevelopment Agency
Fixed Asset Master List
as of 6/30/2011

County of Santa Clara (Deed of Trust)
HBD Collateral
JPB Lease Collateral

Account No.	Asset No.	Description	APN No.	Property Address	Sch. Date	12/30/10 Ending Balance	12/31/10 Ending Balance	ADDITION	TRANSFER TO CSD (Purpose of transfer)	DISPOSITION	Balance For 6-30-11
GRAND TOTAL						Total CIP 194,355,600.79					
							-371,239,858.33	14,423,430.30	146,366,508.51	23,919,705.16	215,476,760.88
10.1612		Accum Dpm- Buildings					16,034,247.00	7,589,237.00	(7,523,135.00)	(7,589,237.00)	8,511,112.00
10.1613		Accum Dpm- Leasehold Improv					411,662.93				411,662.93
10.1615		Accum Dpm- Public Improv					5,625,000.00				5,625,000.00
10.1617		Accum Dpm- Mach & Equipt					696,539.00				696,539.00
10.1619		Accum Dpm- Buildings Improv					3,468,858.00		31,604,723.00		1,862,133.00
		Total Accumulated Depreciation					26,204,284.93	7,589,237.00	(8,127,858.00)	(7,589,237.00)	17,076,446.93
NET BOOK VALUE						351,498,127	345,035,333.40	14,423,430.30	138,365,508.51	23,919,705.16	232,553,237.59

Depreciation was added to the cost total instead of subtracted for the 6/30/11 column. The total should be presented as $198,400,345

Changes in Capital Assets

Bridge of 6/30/11 Capital Asset Listing to balances at 1/31/2012

	June 30, 2011	Addition	Deletion	Transfers	January 31, 2012
Land	72,030,537		5,994,276		66,036,261
Construction in Progress	20,615,650		557,545	(19,081,411)	976,694
Capital assets being depreciated	122,830,602	95,730		19,081,411	141,863,234
Less depreciation	(17,076,446)	(2,855,491)			(19,931,937)
Capital assets being depreciated, net	105,754,156	(2,759,761)			124,931,297
Total Assets	198,400,343	(5,319,522)	6,551,821		191,944,252

* = in the above schedules represent the assets that were deleted or transferred

ATTACHMENT A

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the County of Santa Clara Auditor-Controller's Office

We have performed the procedures enumerated below, which were agreed to by the County of Santa Clara Auditor-Controller's Office (the County Auditor-Controller), solely to assist you in assessing that the dissolved redevelopment agency complied with its statutory requirements with respect to the California Legislature's Assembly Bill (AB) X1 26 and AB 1484. Management of the Successor Agency to the Redevelopment Agency of the City of San Jose (the Successor Agency) and the County Auditor-Controller are responsible for the accounting records pertaining to statutory compliance pursuant to Health and Safety Code Section 34182(a)(1). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

A. Recognized Obligation Payment Schedule

1. Obtain the draft Recognized Obligation Payment Schedule (ROPS) prepared per Health and Safety Code Section 34177(l)(2)(A) and verify that it was prepared by March 1, 2012.

   Result: No exceptions were noted as a result of our procedures.

2. Review the draft ROPS to ensure that it includes (1) the projected dates, (2) the amounts of scheduled payments for each enforceable obligation, and (3) the dates and payments for the remainder of the time period during which the redevelopment agency would have been authorized to obligate property tax increment had such a redevelopment agency not been dissolved.

   Result: No exceptions were noted as a result of our procedures.

3. For each bond obligation on the draft ROPS identified as qualifying under Health and Safety Code Section 34171(d)(1)(A), perform the following:
   - Obtain the bond documents.
   - Obtain the documentation of bond covenants
   - Trace the bond to its issuing legislation.
   - Trace the bond to its issuing party. Identify if it is issued by the Redevelopment Agency of the City of San Jose (the RDA) or other entity.
   - Determine if the issuing legislation qualifies the bond for inclusion on the ROPS.
   - Reconcile the bond obligations by component; i.e. required debt service, reserve set-asides, other payments; and document any differences.

   Result: We identified an agreement for bond consulting services that documented a not-to-exceed fee that was $100,000 lower than the amount of the obligation recorded. See the Reconciliation of Draft and Certified Recognized Obligation Payment Schedules in Section 3 for further details.

   The bond documentation provided by the RDA is located in Section 7.

4. For each loan obligation on the draft ROPS identified as qualifying under Health and Safety Code Section 34171(d)(1)(B), perform the following:
   - Trace each loan to its lawful purpose, for example money borrowed from the Low and Moderate Income Housing Fund. Provide documentation of the purpose.
   - Trace the loan to a required repayment schedule or other mandatory loan terms. Provide documentation of the schedule or terms.

   Result: No exceptions were noted as a result of our procedures. The loan documentation provided by the RDA is located in Section 7.

5. For each required payment obligation on the draft ROPS identified as qualifying under Health and Safety Code Section 34171(d)(1)(C), perform the following:
   - Trace each required payment to the source of the requirement.
   - Provide documentation of the source and of the terms.

   Result: No exceptions were noted as a result of our procedures. The payment documentation provided by the RDA is located in Section 7.

6. For each judgment and settlement obligation on the draft ROPS identified as qualifying under Health and Safety Code Section 34171(d)(1)(D), perform the following:
   - Trace each judgment or settlement to its source document.
   - Provide documentation and substantiation of the source and the terms.

   Result: No exceptions were noted as a result of our procedures. The judgment and settlement documentation provided by the RDA is located in Section 7.

7. For each legally binding and enforceable agreement obligation on the draft ROPS identified as qualifying under Health and Safety Code Section 34171(d)(1)(E), perform the following:
   - Trace each agreement or contract to its source document. Provide documentation of the source.
   - Trace each agreement to documentation justifying that it is not void because of a debt limit violation or public policy. Provide documentation of the justification.

   Result: We identified agreements for three obligations where the term of the agreement ended prior to January 1, 2012. No amendment was provided to demonstrate that the agreement supporting the obligation was still in effect. These three obligations totaled $13,746. See the Reconciliation of Draft and Certified Recognized Obligation Payment Schedules in Schedule 3 for further details.

   We identified agreements for three obligations where the agreement was between the City of San Jose (the City) and a third party vendor. The RDA entered into a project services memorandum with the City where the City contracted with a third party vendor to provide services using RDA funds. The RDA has already provided the funds to the City to compensate the third party vendor upon completion of the services so there is no legally binding agreement between the RDA and the third party vendor. These three obligations totaled $291,128. See the Reconciliation of Draft and Certified Recognized Obligation Payment Schedules in Schedule 3 for further details.

   The legally binding and enforceable agreement and contract documentation provided by the RDA is located in Section 7.

8. For each administrative cost obligation on the draft ROPS identified as qualifying under Health and Safety Code Section 34171(d)(1)(F), perform the following:

   - Identify the justification for the obligation. Provide the reason.
   - Trace each agreement or contract to its source document. Provide documentation of the source.

   Result: No exceptions were noted as a result of our procedures. The documentation that was provided by the RDA is located in Section 7.

9. For each obligation on the ROPS, ensure that the obligation was an obligation of the RDA as of June 28, 2011 per Health and Safety code Sections 34161 through 34165. Under these codes, the RDA cannot incur new indebtedness or expand existing monetary or legal obligations, amend agreements, contracts, etc. as of June 28, 2011.

   Result: We identified three agreements, per Section 2, for obligation where the agreement was entered into after June 28, 2011. See the Reconciliation of Draft and Certified Recognized Obligation Payment Schedules in Section 10 for further details.

10. Review the draft ROPS:
    - Trace it to the fiscal year 2011/2012 Statement of Indebtedness filed with the County Auditor-Controller on or before October 1, 2011. Document the differences.
    - Trace the obligations on the draft ROPS to the Enforceable Obligation Payment Schedule (EOPS). Document the differences.
    - For payments already made, trace the payment amount and date to the documentation of the payment.
    - Verify that payments made by the successor agency were made in accordance with the EOPS and the draft ROPS.
    - Ensure that the EOPS complied with statutory requirements.
    - Pursuant to Health and Safety Code Section 34178, determine which written agreements listed in the ROPS are valid and bind the successor agency.
    - Review the EOPS prepared by the RDA pursuant to Health and Safety Code Section 34169(g)(1) to ensure it was adopted within 60 days from August 30, 2011.
    - For each obligation on the EOPS, ensure the schedule includes (1) the project name associated with the obligation, (2) the payee, (3) a short description of the nature of the work, product, service, facility, or other thing of value for which payment is to be made, and (4) the amount of payments obligated to be made, by month, through June 30, 2012.
    - Identify items on the EOPS that were changed from the original schedule. Substantiate the reason for the change. Ensure that these items are subjected to all applicable procedures identified above.

    Result: We traced the obligations from the draft ROPS to the Statement of Indebtedness and noted a total net difference of $548,232,954. The difference was primarily due to the exclusion of legally binding and enforceable agreements and contracts being included in the Statement of Indebtedness, net of debt service payments made on bonds during the period between the preparation of the Statement of Indebtedness and the draft ROPS. See Attachment A for further details.

We traced the obligations from the draft ROPS to the EOPS and noted a total net difference of $11,156,521. The difference was primarily due to additional payments required by government and administration of operation obligations recorded on the ROPS that were not included on the EOPS. See Attachment B for further details.

We tested payments made as documented in the draft ROPS from January through March 2012. No exceptions were noted based on our review of the documentation and the payments were only for obligations listed on the draft ROPS.

We obtained the second amended EOPS approved by the RDA's Board of Directors on January 31, 2012. We also obtained the Board Resolution No. 6034 approving the second amended EOPS. The original EOPS was approved by the RDA's Board of Directors on August 23, 2011, satisfying the requirements of Health and Safety Code Section 34169(g)(1). We obtained Board Resolution No. 6029 approving the original EOPS. For the second amended EOPS, we noted that all of the required elements were included in the schedule. Several items were added to the second amended EOPS that were not included in the original EOPS. All items added were tested as part of the enforceable obligations listed in the draft ROPS. In addition, agreements were tested to determine that they were valid in accordance with Health and Safety Code Section 34178 as part of the agreements testing in procedure #7 above. See the results of procedure #7 for further details.

B. Redevelopment Agency's Assets and Liabilities

1. Obtain a summary schedule and detail listing of the RDA's assets and liabilities as of June 30, 2010; June 30, 2011; and January 31, 2012. Trace and agree the detail listing to the summary amounts.

   Result: We obtained a summary schedule and detail listing for each asset and liability line item in the RDA's balance sheet as of June 30, 2010; June 30, 2011; and January 31, 2012. We traced and agreed the detail listing for each asset and liability line item to the summary schedules without exception.

2. Compare each period's assets and liabilities and document the changes.

   Result: We compared each period's assets and liabilities. We provided an explanation for each summary amount that showed a change between periods. We also obtained documentation for items that were potentially questionable to determine whether an adjustment was necessary based on the documents received. See Sections 5 through 6 of the report for a synopsis of the detailed schedules and documents and the adjustments proposed.

3. Obtain a listing of additions and deletions of assets and liabilities for the periods from: (1) July 1, 2010 through December 31, 2010; (2) January 1, 2011 through June 30, 2011; and (3) July 1, 2011 through January 31, 2012. Recalculate the activity in the listings to ensure that beginning balances plus additions less deletions equal ending balances.

   Result: We obtained a listing of additions and deletions for each asset and liability line item in the RDA's balance sheet for the periods defined above. We recalculated the activity in the listings without exception.

4. For each capital asset, confirm its existence by either physically observing the asset or, if the asset is not reasonably available for viewing, obtain documentation confirming the existence of the asset. For each capital asset, provide documentation of the asset cost, date placed in service, current condition, and ownership by the redevelopment agency and successor agency.

   Result: Each capital asset's existence and current condition was confirmed by physically observing the asset without exception. We obtained the Fixed Asset Master List to verify the asset cost and date placed in service for each asset without exception. We confirmed the Successor Agency's ownership of land by obtaining grant deeds. We noted two parcels of land that were included in the Fixed Asset Master List but not reported to the State Controller's Office for the asset transfer assessment: 331 Terraine Street (APN #259-24-039) acquired for $1,467,485 on September 24, 2007 and 255 Bassett Street (APN #259-23-027) acquired for $198,000 on September 24, 2007.

5. For each capital asset deletion, obtain documentation of the disposal, including the manner of disposal and, if a sale or transfer, the entity or person receiving the asset.

   Result: We obtained documentation for the disposal of each capital asset deletion. For sales or transfers of assets to non-governmental entities, we applied the transfer procedures in procedure #6 below and summarized the results in the Establishment of Transfers Schedule in Section 1. No exceptions were noted as a result of performing this procedure.

6. Obtain a list of assets transferred from the RDA. For assets transferred from the RDA:
   - Provide a listing of all transferred assets, including the item value and entity or person to which the RDA transferred the item.
   - Provide documentation of the reason for the transfer.
   - Identify if the State Controller's Office has reviewed the transfer.
   - If reviewed by the State Controller's Office, provide the results of the review.
   - If not reviewed by the State Controller's Office, provide the reason not reviewed.

   Result: We obtained a list of asset transfers from the RDA to other governmental entities. We summarized the asset transfers, including the value of the transfer, the governmental entity receiving the transfer, and the reason for the transfer, in the Establishment of Transfers Schedule in Section 1. We noted that most asset transfers made from the RDA to other governmental entities were in violation of the clawback provision of the Health and Safety Code. See the Executive Summary and Section 5 for further details. The State Controller's Office issued a general letter on April 20, 2012 to Successor Agencies clarifying the treatment of transfers. The State Controller has reviewed the asset transfers from the RDA to the San Jose Diridon Development Authority but has not issued its report by date this report.

7. For assets that are Low and Moderate Income Housing Funds:
   - If transferred, obtain documentation of transfer to a successor agency.
   - If not transferred, provide reason.

   Result: On January 20, 2012, the RDA Board of Directors adopted a resolution memorializing the transfer, by operation of law, as of February 1, 2012, of all housing assets and functions, with regard to the Low and Moderate Income Housing Program, to the City as Successor Housing Agency. The RDA Board of Directors adopted a new fund for the Successor Housing Agency, effective February 1, 2012, entitled "Affordable Housing Investment Fund."

   The Successor Housing Agency's liquid assets are pooled with the City's assets; therefore, the Successor Housing Agency has not changed the name on deposit and investment accounts that hold the Successor Housing Agency's assets.

8. Review the RDA's audited financial statements as of June 30, 2010 and June 30, 2011.
   - Verify the audits meet the guidelines issued by the California State Controller, including a report on the RDA's compliance with laws, regulations, and administrative requirements.
   - Ensure the audits were conducted in accordance with *Government Auditing Standards.*
   - Verify the RDA received an unqualified opinion on the financial statements; if other than unqualified, document the reasons for the qualification.
   - Obtain copies of the audit, management letter, and any other results/products delivered by the auditors.
   - Trace asset and liability amounts as of June 30, 2010 and June 30, 2011 to the annual financial audit of the RDA. Identify reasons for differences.

   Result: We received copies of the audited financial statements for the years ended June 30, 2010 and 2011. Per the auditor's reports, the audits met the guidelines issued by the California State Controller and include reports on the RDA's compliance with laws, regulations, and administrative requirements. The audit reports noted that the audits were conducted in accordance with Government Auditing Standards and the RDA received unqualified opinions on the financial statements. We received a copy of the management letter for the year ended June 30, 2010. No letter was issued for the year ended June 30, 2011. The June 30, 2010 management letter reported required communications to the Board of Directors but there were no findings. The audited asset and liability balances were the basis for the summary schedules that we used in procedure #1 above and are reconciled to the detailed schedules provided by the Successor Agency.

9. Perform analysis as follows:
   - Compare the RDA's financial statements as of June 30, 2010 to the statements as of June 30, 2011 and January 31, 2012.
   - Identify fluctuations in amounts greater than $5,000. Substantiate reasons for the fluctuations.
   - Trace revenues received to the assets that generated the revenues.
   - Read the footnotes. Identify assets.
   - Trace assets identified to the RDA assets as of January 31, 2012. Identify and substantiate reasons for differences.

Result: In conjunction with procedure #2 above, we performed analysis on each asset and liability line item in the RDA's balance sheet as of June 30, 2010; June 30, 2011; and January 31, 2012. We summarized the reasons for the fluctuations between periods for fluctuations greater than $5,000 in Section 6. As part of this analysis, we explained the linkages between revenues and the assets that generated the revenues. We read the footnotes to the financial statements to ensure that all assets were included in the financial statements without exception. Asset differences identified as of January 31, 2012 were documented as part of the asset disposal and asset transfer procedures performed in procedure #5 and #6 respectively.

10. Review expenditures made after June 28, 2011 to ensure they met the conditions of Part 1.8 (commencing with Health & Safety Code Section 34161).
    - For each expenditure, provide its rationale.
    - For each expenditure greater than $10,000, provide substantiation that it meets the requirements of Part 1.8.

    Result: Expenditures are tested as listed on the Recognized Obligation Payment Schedule testing above. In particular, see the results to procedures #3 through #9 in that Section for further details.

11. Confirm assets with Successor Agency personnel.

    Result: Assets were confirmed with Successor Agency personnel as part of the work performed on procedures #1 through #4 above. In addition, we obtained a written statement from the Successor Agency's Executive Director verifying that all assets have been recorded as documented in the response to procedure #13 below.

12. Ask Successor Agency personnel of any assets not recorded.

    Result: During the course of performing the other procedures in this section, we periodically noted inconsistencies between summary schedules, detailed schedules and source documents. Inquiries were made to Successor Agency personnel when such items were discovered and corrections were made where appropriate. Sections 1 and 2 show any adjustments made to correct asset and liability balances. See Sections 1 and 2 for further details.

13. Obtain a written statement from Successor Agency personnel verifying that all assets have been recorded.

    Result: The Successor Agency's Executive Director provided a signed statement dated June 13, 2012 that all assets as of January 31, 2012 have been recorded as part of the financial statements.

14. Review RDA and Successor Agency board minutes from June 30, 2010 to date and identify any assets not recorded and liabilities transferred in.

    Result: We did not identify any additional assets to be recorded or liabilities to be transferred in as a result of performing this procedure.

C. Redevelopment Agency Indebtedness

1. Trace each debt incurred by the RDA to the initial ROPS.

   Result: We performed this procedure in the Recognized Payment Obligation Schedule procedure #3 above. See the results of that procedure for further details.

2. Review documentation of the terms of indebtedness.

   Result: We performed this procedure in the Recognized Payment Obligation Schedule procedure #3 above. See the results of that procedure for further details.

3. Agree indebtedness to the liabilities testing at June 30, 2010; June 30, 2011; and January 31, 2012 in the Redevelopment Agency's Assets and Liabilities Section above.

   Result: We agreed indebtedness listed in the ROPS to the detailed schedules as of June 30, 2010 and June 30, 2011. The Agency did not provide us a detailed listing as of January 31, 2012 but we were able to use the future debt service schedule from January 31, 2012 to reconcile to the ROPS. We noted differences between the detailed schedules and the ROPS for interest amounts on variable rate debt. Since interest payments on variable rate date are calculated using the effective interest rate as of the statement of net assets date, these variances are reasonable. Except for these variances, no exceptions were noted as a result of our procedures.

4. Agree indebtedness to the RDA's audited financial statements at June 30, 2010 and June 30, 2011.

   Result: We agreed indebtedness listed in the ROPS to the audited financial statements as of June 30, 2010 and June 30, 2011. We noted differences between the detailed schedules and the ROPS for interest amounts on variable rate debt. Since interest payments on variable rate date are calculated using the effective interest rate as of the statement of net assets date, these variances are reasonable. Except for these variances, no exceptions were noted as a result of our procedures.

D. Redevelopment Agency's Pass-Through Obligations

1. Obtain all pass-through agreements.

   Result: Procedure was performed by the County of Santa Clara Auditor-Controller's Office. See their report in Section 4 for further details.

2. Obtain a listing of the RDA's pass-through obligations as of February 1, 2012, including due dates, amounts due, and the recipient agency.
   - If pass-through amounts are calculated by the Santa Clara County Controller-Treasurer Department, confirm the amount with County personnel.
   - If pass-through amounts are calculated by the RDA, obtain a detailed worksheet of each calculation. Agree amounts per the worksheet to the total on the summary. Substantiate that the amount is correctly calculated.

   Result: Procedure was performed by the County of Santa Clara Auditor-Controller's Office. See their report in Section 4 for further details.

3. For pass-through payments listed as of February 1, 2012 and already made, trace the payment amount and date to the documentation of the payment.

   Result: Procedure was performed by the County of Santa Clara Auditor-Controller's Office. See their report in Section 4 for further details.

4. List payments, including dates and amounts, which will need to be made during fiscal year 2011/2012.

   Result: Procedure was performed by the County of Santa Clara Auditor-Controller's Office. See their report in Section 4 for further details.

E. Other Procedures

1. Verify that the Successor Agency has been appointed, with names of the Successor Agency's Oversight Board submitted to the California Department of Finance by May 1, 2012.

   Result: Per the City Council minutes dated January 24, 2012, the City Council, as the governing body of the RDA, approved the establishment of the Successor Agency. Per the Successor Agency letter dated March 22, 2012, the Clerk of the Oversight Board of the Successor Agency provided the names of the Successor Agency's Oversight Board members to the California Department of Finance.

2. Verify that the Successor Agency has established the Redevelopment Obligation Retirement Fund in its treasury.

   Result: Per the City Council memo dated January 24, 2012, the Successor Agency established the Redevelopment Obligation Retirement Fund on February 1, 2012. We obtained the April 2012 bank statements and confirmed that the name on the statements had been changed to the Successor Agency.

3. Determine and verify that all of the former RDA assets and liabilities, properties, contracts, leases, books and records, buildings, and equipment were properly closed out by the RDA and transferred to the Successor Agency.

   Result: We obtained the general ledger detail of the RDA and the Successor Agency and verified that all of the financial information was properly closed out by the RDA and transferred to the Successor Agency. Properties, contracts, leases, buildings and equipment were tested as part of the Recognized Payment Obligation Schedule and the Redevelopment Agency's Assets and Liabilities sections of the report. See these sections for further details.

4. Verify that the Successor Agency remitted all unencumbered balances of redevelopment funds to the county controller for distribution to taxing entities, pursuant to Health and Safety Code Section 34177(d).

   Result: Per the RDA Dissolution Memo presented at the City Council meeting on January 24, 2012, there were no unencumbered balances of redevelopment funds available to remit to the county controller for distribution to taxing entities.

5. Obtain the final ROPS and perform the following:
   - Verify that the certified ROPS has been approved by the Oversight Board.
   - Obtain a copy of the final ROPS from the Successor Agency.
   - Verify that the final ROPS was submitted to the County Auditor-Controller, the California State Controller, and the California Department of Finance by April 15, 2012 and is posted on the website of the Successor Agency.
   - Obtain a copy of the final statement of indebtedness and note any difference between the statement of indebtedness and the final ROPS.
   - Verify that payments were made in accordance with the final ROPS.
   - Identify enforceable obligations on the final ROPS that were not already tested in other procedures, and test in accordance with the procedures above.

   Result: Per the Oversight Board minutes on April 12, 2012 and the Oversight Board Resolution No. 2012-04-1005, the Oversight Board approved the certified ROPS. We obtained a copy of the certified ROPS and re-certified ROPS. The re-certified ROPS is included in Section 3 of the report along with an updated version of the ROPS Reconciliation and Payment Schedule that reconciles to the re-certified ROPS, see Section 3 for further details.

   The certified ROPS was sent to the County Auditor-Controller and the California Department of Finance on April 13, 2012. The re-certified ROPS was sent to the County Auditor-Controller on May 3, 2012 and the California Department of Finance on May 18, 2012. We received documentary evidence that the ROPS and the re-certified ROPS were sent to the California State Controller.

   The statement of indebtedness has not been updated since October 2011. We compared that statement of indebtedness to the draft ROPS and documented the differences. We also tested payments from January through March as reported on the draft ROPS and noted no exceptions. Since no new obligations were added to the final ROPS, no additional testing of payments is necessary. See procedure #10 in the Recognized Obligation Payments Schedule Section for further details on the results of these procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion as to the appropriateness of the results summarized above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The report is intended solely for the information and use of the County, the California State Controller's Office and the California Department of Finance; and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Burr Pilger Mayer, Inc.

San Jose, California
October 5, 2012

Section 7

ATTACHMENT A

Schedule of Differences Between the ROPS and the Statement of Indebtedness

Project Name	Payee	ROPS Remaining Amount of Obligation	SOI Remaining Amount of Obligation	Difference
Series 1993 (Merged Area Refunding)	Union Bank	$ 22,561,800	$ 38,186,850	$ (15,625,050)
Series 1997 (Merged Area)	Union Bank	8,986,749	9,456,396	(469,647)
Series 1999 (Merged Area)	Union Bank	17,489,263	17,796,113	(306,850)
Series 2002 (Merged Area)	Union Bank	15,450,325	25,334,538	(9,884,213)
Series 2003 (Merged Area)	Union Bank	238,179,850	241,293,855	(3,114,005)
Series 2004A (Merged Area)	Union Bank	233,911,609	247,557,738	(13,646,129)
Series 2005A (Merged Area)	Union Bank	188,857,553	202,589,258	(13,731,705)
Series 2005B (Merged Area)	Union Bank	74,264,250	75,940,750	(1,676,500)
Series 2006A (Taxable) (Merged Area)	Union Bank	21,051,800	21,427,525	(375,725)
Series 2006B (Merged Area)	Union Bank	133,159,000	134,699,750	(1,540,750)
Series 2006C (Merged Area)	Union Bank	730,962,153	740,530,724	(9,568,571)
Series 2006D (Merged Area)	Union Bank	412,044,500	419,510,575	(7,466,075)
Series 2007A (Taxable) (Merged Area)	Union Bank	16,709,715	19,068,608	(2,358,893)
Series 2007B (Merged Area)	Union Bank	359,548,425	364,034,688	(4,486,263)
Series 2008A (Merged Area)	Union Bank	35,089,625	39,294,184	(4,204,559)
Series 2008B (Merged Area)	Union Bank	163,531,550	166,199,309	(2,667,759)
Series 1993 Fiscal Agent Fees	Union Bank	127,884	-	127,884
Series 1997 Fiscal Agent Fees	Union Bank	52,000	-	52,000
Series 1999 Fiscal Agent Fees	Union Bank	58,536	-	58,536
Series 2002 Fiscal Agent Fees	Union Bank	79,485	-	79,485
Series 2003 Fiscal Agent Fees	Union Bank	77,660	-	77,660
Series 2004A Fiscal Agent Fees	Union Bank	85,100	-	85,100
Series 2008A Fiscal Agent Fees	Union Bank	75,060	-	75,060
Series 1996A (Merged Area)	US Bank	37,730,590	24,392,388	13,338,202
Series 1996B (Merged Area)	US Bank	37,660,432	24,327,392	13,333,040
Series 2003A (Taxable) (Merged Area)	US Bank	48,003,905	35,055,222	12,948,683
Series 2003B (Merged Area)	US Bank	29,862,992	15,518,195	14,344,797
Fiscal Agent Fees - Subordinate Obligations	US Bank	166,076	-	166,076
LOC Fees	JP Morgan Bank	1,080,000	-	1,080,000
Series 1996A & B Remarketing Fees	Citigroup Global Markets/ Merrill Lynch	376,343	-	376,343
Series 2003A Remarketing Fees	JPMS LLC Cash Mgmt.	478,583	-	478,583
Series 2003B Remarketing Fees	Bank of America/ Merrill Lynch	213,142	-	213,142
Series 1996A & B, Series 2003A & B, Series 2008B Remarketing Fees	Standard & Poors	145,500	-	145,500
4th and San Fernando - Series 2001A	Wells Fargo	48,790,915	50,472,311	(1,681,396)
4th and San Fernando - Series 2001A Fiscal Agent Fees	Wells Fargo	46,200	-	46,200
Convention Center - Series 2001F	US Bank	170,732,450	182,897,607	(12,165,157)
Convention Center - Series 2001F Fiscal Agent Fees	US Bank	45,885	-	45,885
Series 1997F (AMT) (Merged Area)	Wells Fargo	29,238,288	-	29,238,288
Series 2003J (Taxable) (Merged Area)	Wells Fargo	47,276,801	-	47,276,801
Series 2003K (Merged Area)	Wells Fargo	8,603,861	-	8,603,861
Series 2005A (Merged Area)	Wells Fargo	15,693,750	-	15,693,750
Series 2005B (Taxable) (Merged Area)	Wells Fargo	191,039,365	-	191,039,365
Series 2010A-1 (Merged Area)	Wells Fargo	101,742,412	-	101,742,412
Series 2010A-2 (Merged Area)	Wells Fargo	3,215,500	-	3,215,500
Series 2010B (Taxable) (Merged Area)	Wells Fargo	6,057,986	-	6,057,986
Series 2010C (Taxable) (Merged Area)	Wells Fargo	230,319,989	-	230,319,989
Bond Logistics	Third party consultant	150,000	-	150,000
CSCDA - 2005 ERAF Loan	CSCDA	8,666,753	9,904,742	(1,237,989)
CSCDA - 2006 ERAF Loan	CSCDA	9,066,536	10,073,794	(1,007,258)
Low Moderate Income Fund Loan 1	City of San Jose	82,000,000	77,315,368	4,684,632
Low Moderate Income Fund Loan 2	City of San Jose	16,000,000	-	16,000,000
Agency Bond Activities	Jones Hall	27,280	-	27,280
Agency Operations	Urban Analytics, LLC	30,000	-	30,000
Arena Pass-through	City of San Jose	3,195,000	-	3,195,000
Autumn Street Relocation	City of San Jose	320,000	-	320,000
Property-Based Business Improvement District Payments	Property and Business Improvement District	148,284	-	148,284
Markham Terrace	Charities Housing	13,000,000	-	13,000,000
Casa Feliz	Various tenants	9,670	-	9,670
San José Redevelopment Agency vs Solis, Torrez dba Patty's Inn	Kenneth F. Solis or Bonnie C. Torrez dba Patty's Inn	150,000	-	150,000
JP Morgan Reimbursement Agreements (2)	JP Morgan Chase Bank (2)	-	-	-
Civic Auditorium	Garden City Construction, Inc.	253,989	-	253,989

Section 7

ATTACHMENT A

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Project Name	Payee	ROPS Remaining Amount of Obligation	SOI Remaining Amount of Obligation	Difference
Adobe-Water Monitoring	AECOM Technical Services, Inc./State Water Resources Control Board	180,933	-	180,933
ACE Charter School	ACE Charter School	185,373	-	185,373
Corporate Expansion Program	Mission West Properties, LP	263,476	-	263,476
Corporate Expansion Program	SVTC Solar, Inc.	250,000	-	250,000
Corporate Expansion Program	SunPower, Inc.	500,000	-	500,000
Corporate Expansion Program	Intermolecular, Inc.	80,000	-	80,000
Corporate Expansion Program	Shocking Technologies, Inc.	187,500	-	187,500
North San Pedro Housing	First Community Housing per DDA with Swenson and NSPT	2,500,000	-	2,500,000
Block 3: Central Place Parking	The 88 Master/Residential Association	264,995	-	264,995
NBD: Façade Improvements	Edwin Bruce Associates	13,673	-	13,673
NBD: Façade Improvements	T&C Corporation	65,000	-	65,000
NBD: Façade Improvements	Michael P. & Suzette M. Sordello, Joseph B. & Davide B. Vieira & John Peichoto	60,000	-	60,000
NBD: Façade Improvements	Michael P. & Suzette M. Sordello, Joseph B. & Davide B. Vieira & John Peichoto	38,000	-	38,000
NBD: Façade Improvements	Lena and Alphonese Derose and Anthony Cedolini	98,000	-	98,000
NBD: Façade Improvements	Angela Green	25,000	-	25,000
Japantown – Parking Lot Lease	Dobashi Kumata Partners	22,285	-	22,285
The Alameda – Parking Lease	Gillick Family Partnership	30,469	-	30,469
The Alameda – Parking Lease	Westminster Presbyterian Church	34,121	-	34,121
Arena Employee Parking	West Coast Parking, Inc.	61,600	-	61,600
Arena Employee Parking	Classic Parking, Inc.	66,000	-	66,000
The Alameda - Parking Lease	Pro-Sweep, Inc.	5,015	-	5,015
Automatic Public Toilets	JCDecaux San Francisco, LLC & Utility Companies	5,618,940	-	5,618,940
Asset Management	Hill Enterprises	14,756	-	14,756
Asset Management	Flagship Facility Services, Inc.	20,383	-	20,383
Asset Management	Security Code 3, Inc.	18,382	-	18,382
Asset Management	CA Window Cleaning	2,525	-	2,525
Real Estate & Relocation Services	Cornerstone Earth Group, Inc.	52,433	-	52,433
Real Estate & Relocation Services	Keyser Marston Associates, Inc.	26,571	-	26,571
Miraido	Cornerstone Earth Group, Inc.	85,004	-	85,004
Competitive Art Capital Fund	The Tabard Theatre Company	11,500	-	11,500
Autumn Street Infrastructure	David J. Powers & Associates, Inc.	112,354	-	112,354
Center for Employment Training Facility Renovation	Artik Art & Architecture	13,600	-	13,600
Center for Employment Training	Center for Employment Training (CET)	950,000	-	950,000
San Pedro Square Urban Market	Urban Markets, LLC	600,000	-	600,000
San Jose Innovation Center	RSTP Investments, LLC	1,364,444	-	1,364,444
North San Pedro Housing - Prop 1C	Community Towers, LLC	515,706	-	515,706
North San Pedro Housing - Prop 1C	Legacy Bassett Partners	2,094,191	-	2,094,191
North San Pedro Housing - Prop 1C	Green Valley Corporation	151,096	-	151,096
North San Pedro Housing - Prop 1C	St. James Enterprises, LP	617,514	-	617,514
4th Street Garage Tenant Improvements	Flames Eatery & Bar	26,000	-	26,000
NBD: Marketing	San Jose Silicon Valley Chamber of Commerce	34,717	-	34,717

Section 7

ATTACHMENT A

Schedule of Differences Between the ROPS and the Statement of Indebtedness

Project Name	Payee	ROPS Remaining Amount of Obligation	SOI Remaining Amount of Obligation	Difference
San Jose Downtown Association	San Jose Downtown Association	150,560	-	150,560
Small Business Assistance	Hispanic Chamber of Commerce of Silicon Valley	20,000	-	20,000
NBD Program Operations	East Santa Clara Street Business Association	5,000	-	5,000
NBD Program Operations	Japantown Business Association	1,538	-	1,538
NBD Program Operations	North 13th Street Business Association	5,000	-	5,000
NBD Program Operations	Story Road Business Association	5,000	-	5,000
NBD Program Operations	The Alameda Business Association	5,000	-	5,000
NBD Program Operations	West San Carlos Street Business Association	5,000	-	5,000
NBD Program Operations	Winchester Business Association	4,422	-	4,422
Purchase & Sale Agreement	Brandenburg/Green Valley	9,975	-	9,975
HUD Section 108 Note (Masson/Dr. Bu/Security)	Bank of New York	2,077,841	-	2,077,841
HUD Section 108 Note (CIM Block 3/ Central Place)	Bank of New York	12,535,478	-	12,535,478
HUD Section 108 Note (Story/King Retail)	Bank of New York	16,836,622	-	16,836,622
HUD 108 Loans	City of San Jose	499,183	-	499,183
Belovida at Newbury Park – Loan 1	Belovida at Newbury Park, L.P.	7,084,853	-	7,084,853
Roundtable	Unity Care	208,540	-	208,540
Brookwood Terrace Family Apartments (5)	Brookwood Terrace Family Apartments, L.P.	1,034,395	-	1,034,395
North 4th - Loan 2 (5)	First Community Housing	3,376,123	-	3,376,123
Orvieto (5)	ROEM	1,603,455	-	1,603,455
Ford and Monterey (5)	Eden Housing, Inc.	1,430,000	-	1,430,000
AB1290	County of Santa Clara	-	1,505,622	(1,505,622)
AB1290	County of Santa Clara	-	-	-
County Tax Collection Admin Fees	County of Santa Clara	-	1,843,280	(1,843,280)
Agency Adopted Capital/Operating Budget				
City/Agency Cooperation Agreement		-	21,276,434	(21,276,434)
20% Housing Set-Aside		-	34,922,320	(34,922,320)
HUD Section 108 Loans		-	33,242,907	(33,242,907)
CSJ Parking Fund Loan	City of San Jose	-	11,846,898	(11,846,898)
CSJ Parkland In-Lieu Obligation	City of San Jose	-	8,111,800	(8,111,800)
CSJ Other Obligation (406 N. Autumn St.)	City of San Jose	-	630,000	(630,000)
County Pass-Through Obligation	County of Santa Clara	-	23,561,815	(23,561,815)
Total		$ 3,878,051,910	$ 3,329,818,956	$ 548,232,954

Section 7

Attachment B

Schedule of Differences Between the ROPS and the EOPS

Project Name	Payee	ROPS Remaining Amount of Obligation	EOPS Remaining Amount of Obligation	Difference
Series 2008A (Merged Area)	Union Bank	$ 75,060	$ 72,870	$ 2,190
Fiscal Agent Fees - Subordinate Obligations	US Bank	166,076	163,661	2,415
LOC Fees	JP Morgan	1,080,000	1,516,638	(436,638)
Bond Logistics	Third party consultant	150,000	-	150,000
County Tax Collection Admin Fees	County of Santa Clara	43,810,200	37,133,151	6,677,049
May 2001 Amended & Restated Agreement between The County of Santa Clara and the Agency	County of Santa Clara	15,609,281	17,143,586	(1,534,306)
Civic Auditorium	Garden City Construction, Inc.	253,988	258,704	(4,716)
Adobe-Water Monitoring	AECOM Technical Services, Inc./State Water Resources Control Board	180,933	78,753	102,179
The Alameda - Parking Lease	Pro-Sweep, Inc.	5,015	2,012	3,003
Automatic Public Toilets	JCDecaux San Francisco, LLC & Utility Companies	5,618,940	5,618,282	658
Asset Management	Hill Enterprises	14,756	13,862	894
Asset Management	CA Window Cleaning	2,525	2,180	345
Real Estate & Relocation Services	Keyser Marston Associates, Inc.	26,571	17,646	8,925
Miraido	Cornerstone Earth Group, Inc.	85,004	78,684	6,320
Autumn Street Infrastructure	David J. Powers & Associates, Inc.	112,354	292,354	(180,000)
NBD Program Operations	Winchester Business Association	4,422	6,130	(1,708)
Escrow Agreement	Vendor or Contractor	1,819,410	1,811,411	7,999
Disposition and Development Agreement	CIM California Urban Real Estate Fund LP	706,177	288,863	417,314
SNI: 13th Street - Watson Park	Joseph J. Albanese, Inc.	225,882	-	225,882
SNI: Spartan Keyes Public Art	Marta Thoma	64,000	-	64,000
SNI: Blackford - Underwood Multi-Family Exterior Program	RBF Consulting	1,246	-	1,246
Belovida at Newbury Park - Loan 1	Belovida at Newbury Park, L.P.	7,084,853	3,794,346	3,290,507
Roundtable	Unity Care	208,540	-	208,540
Personnel	Personnel Staff	750,000	(387,663)	1,137,663
Agency's Operations	Concern: EAP Employee Assistance	6,500	-	6,500
Employee Transition Services	Lee Hecht Harrison LLC	26,750	23,150	3,600
Agency's Operations	AT&T Mobility	4,000	2,730	1,270
Agency's Operations	ADP, Inc.	5,000	1,510	3,490
Agency's Operations	Value Business Products	37,316	36,891	425
Agency's Operations	CDW-Government, Inc.	8,308	8,190	118
Agency's Operations	Canon Business Solutions/CBS Newcal, Inc.	17,813	16,082	1,732
Agency's Operations	Pitney Bowes Global Financial	3,069	1,908	1,161
Agency's Operations	Oracle America, Inc.	35,599	29,871	5,728
Agency's Operations	Rosenow Spevacek Group, Inc.	138,560	138,463	97
Agency's Operations	Ross Financial	150,000	3,620	146,380
Agency's Operations	Misc Vendors	20,339	50,957	(30,618)
Agency's Lease Obligations/Asset Management (6)	Misc Vendors	100,000	41,878	58,122
Low Moderate Income Fund Loan 1	City of San Jose	52,720,679	52,099,425	621,254
SERAF Loan Monitoring Fee	City of San Jose	750,000	562,500	187,500
Total		$ 132,079,166	$ 120,922,645	$ 11,156,521

Section 8

Unrestricted Housing Cash

Background:

In early February 2012, a cash transfer in the amount of $10,155,043 was made from the Low and Moderate Program Housing Fund (#443) to the Affordable Housing Investment Fund (#346) and was recorded as a January 31, 2012 month-end transaction. On June 22, 2012, the State Controller's Office stated that these funds should be returned to the San Jose Successor Agency pursuant to the provisions of Health and Safety Code section 34176, which states that housing assets available for transfer to the Housing Successor exclude "amounts on deposit in the Low and Moderate Income Housing Fund."

The City's position is that the subsequent enactment of AB 1484 included a section that allows this transfer. Specifically, the trailer bill added Section 34176 (e) (4), which defined as an asset transferrable to the successor housing agency "any funds derived from rents or operation of properties acquired for low- and moderate-income housing purposes." The City has provided a spreadsheet (Exhibit A) listing the collection of rents, loan repayments, etc. between October 2010 and January 2012 totaling $10,505,327 in support of the $10.1 million transfer.

Discussion:

Fund 443 operated as a housing general fund for over two decades and included collections of unrestricted revenues, 20% tax increments, loan repayments and other unrestricted income. Expenses paid from this fund included all housing staff costs and administration, debt service payments and program expenditure including loans and grants.

The City's position that program income from October 2010 through January 2012 has resulted in the funds of $10.1 million eligible to be transferred has several flaws:

- DOF personnel that we have consulted question the methodology used by the City. They have indicated that Section 34176 is meant to have prospective effect and not retroactively encompass 16 months of rental receipts. In fact, specific guidance from DOF on the statutory provision being relied on by San Jose (i.e. H&S, § 34176(e)(4)) unequivocally states that it was mean to encompass payments "due from third parties."[1] Therefore, the $10 million on deposit cannot count as a transferrable housing asset.
- Even if we assume—contrary to the statutory language, DOF guidance and the general rule against retroactive application—that previously-derived funds may be transferred to the Housing Successor as a housing asset, an examination of the City's accounting method is required. Whether 1 month or 16 months were to be considered, it appears that the City did not offset income with program expenditures during this period. An extrapolation from the budget for this period would indicate that substantial funds were used for new housing loans. The City stated during the exit conference that it had suspended loans for this entire period. However, there would still be program costs offsetting revenues.

[1] Third Question, Housing Asset Form FAQs, available at http://www.dof.ca.gov/redevelopment/housing_assets/documents/760_Housing_Asset_Form_FAQs.pdf

- The majority of the income per the City's schedule (Exhibit A) is loan principal and interest receipts totaling $8,912,076. Therefore, Health & Safety Code 34176 (e) (4) which references "any funds derived from rents or operation of properties," does not appear to support the City's argument because it does not even mention loan proceeds and payments that are the majority of $10.5M. (The prior sub-section (i.e. Health & Safety Code 34176 (e) (3)) does address loans and it is clear that loan balances due at January 31, 2012 and other receivables can be transferred. However, this does not include accumulated cash.)
- Fund 443 budget shows that total beginning fund balance went from $59,400,461 in June 2010 to $19,560,248 after the transfer. Adding back the $10,155,043 transfer would amount to budgeted decline in fund balance of $29,685,170 between June 2010 and July 2012. One of the key accounting principles is to match current revenues with their related expenses. The deficit financing for this two year period would indicate that any remaining fund balance must have been generated in periods prior to June 2010, thereby undercutting the City's argument that this money was generated in the 16-month period beginning October 2010.
- Section 34176 (a) (1) states that allowed transfers to the successor housing program exclude "amounts on deposit in Low and Moderate Income Housing Fund." The city argues that it used two sub-accounts—one for all tax increment, and one for all program income. By attempting to make this distinction, the City appears to be arguing that unspent tax increment fits the definition of "amounts on deposit," and can be separated from "other" cash. According to the City, this "other" cash on deposit is transferrable to the Housing Successor. However, cash is fungible, and, in any event, loan receipts and program income constitute recycled tax increment. We find no support for the City's argument in the law or based on accounting principles and neither do the Department of Finance officials with whom we have consulted.

Conclusion:

The statute and DOF guidance are clear that all amounts "amounts on deposit in the Low and Moderate Income Housing Fund" may not be included within Housing Assets eligible for transfer to the Housing Successor. The City of San Jose is seeking to justify its $10,155,043 transfer by claiming that the transfer comprised cash segregated from tax increment. However, we cannot find a statutory basis for this distinction. Moreover, cash is fungible, and for over two decades Fund 443 included all unrestricted receipts, general and program expenditures and carryover fund balances. As such, all remaining funds have become homogenized to a point where they cannot be traced to their origin. Absent the transfer, the $10,155,043 would have been classified as unrestricted fund balance in Fund 443 on January 31, 2012. Consequently, the basic provisions of Health and Safety code section 34176 require the return of these funds to the Successor Agency.

EXHIBIT A

Sum of EXTENDED_AMOUNT	Oct. 2010	Nov. 2010	Dec. 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	Jun 2011		Jul 2011	Aug 2011	Sept 2011	Oct 2011	Nov 2011	Dec 2011	Jan 2012		
	Fiscal Year	TRAN. PERIOD																	
	FY11																		
TITLE	4	5	6	7	8	9	10	11	12	FY11 Total	FY12 1	2	3	4	5	6	7	FY12 Total	Grand Total
CONDITIONAL GRANT PENALTY								(507,182)		(507,182)									(507,182)
DEFERRED LN REPAYMNT-PRINCIPAL		(1,015)	(798)	(8,341)	(1,273)	(28)	(1,917)	(33,284)	(1,889)	(49,345)	(1,517)	(86,080)	(43,545)	(21,510)	(10,739)		(23,644)	(187,035)	(236,351)
DEFERRED LN REPAYMT-INTEREST		(1,109)	(651)	(3,343)	(1,873)	(1,446)	(862)	(1,320)	(593)	(11,218)	(572)	(93,746)	(14,373)	(1,326)	(2,602)	(259)	(1,235)	(114,112)	(125,330)
EQUITY SHARE		(6,000)	(13,485)	(4,550)					(40)	(24,075)			(6,258)	(1,298)				(7,693)	(31,773)
HOMEBUYER SUBORDINATION FEE	(1,880)	(280)	(1,680)	(1,640)	(1,120)	(1,120)	(640)	(640)		(9,200)	(280)		(840)	(560)	(280)		(560)	(2,520)	(11,720)
HSG DEV LOANS PRIN REPAYMENTS	(496,495)	(1,350,653)	(14,962)	(47,837)	(18,887)	(23,340)	(737,699)	(100,201)	(24,583)	(2,815,055)	(35,692)	(93,451)	(23,740)	(21,573)	(16,340)	(21,116)		(211,911)	(3,026,967)
INTEREST								(23,828)		(23,828)									(23,828)
INTEREST ON DEVELOPER LOANS	(88,670)	(82,922)	(88,883)	(457,561)	(234,225)	(297,182)	(2,259,755)	(570,946)	(458,013)	(4,538,208)	(171,625)	(4,116)	(435,446)	(67,143)	(107,409)	(112,271)		(918,012)	(5,456,220)
INTEREST ON SECOND MORTG LOANS		(208)	(368)	(250)	(202)	(201)	(480)	(91)	(346)	(2,124)	(400)	(195)	(32,747)	(237)	(192)	(283)	(190)	(34,294)	(36,418)
PRINC PAYMT HMEBY 2ND MORTG LN	(6,375)	(4,230)	(5,647)	(3,843)	(4,295)	(64,160)	(3,785)	(49,685)	(4,426)	(146,457)	(4,816)	(4,540)	(44,413)	(9,335)	(4,966)	(49,299)	(5,974)	(125,242)	(269,699)
SECD LOAN REPAYMT-INTEREST		(6,822)	(6,509)	(7,388)	(8,758)	(6,545)	(8,776)	(8,825)	(6,675)	(55,999)	(6,857)	(6,365)	(6,166)	(6,000)	(6,218)	(6,076)	(6,055)	(43,539)	(99,538)
SECD LOAN REPAYMT-PRINCIPAL		(13,379)	(16,602)	(30,980)	(19,678)	(13,620)	(15,811)	(14,941)	(15,310)	(143,029)	(15,457)	(48,413)	(14,103)	(13,730)	(19,368)	(13,890)	(14,321)	(139,442)	(282,472)
THP REPAYMENT	(43,000)	(7,876)	(38,717)	(32,900)		(57)	57	(4,000)	(55,000)	(191,493)			(80,000)	(80,500)			(40,000)	(200,500)	(391,993)
VERMONT RENT			(1,500)	(500)	(500)		(835)	(417)	(417)	(4,168)			(1,251)	(417)				(1,668)	(5,836)
Grand Total	(636,220)	(1,474,991)	(191,699)	(600,143)	(291,161)	(407,728)	(3,028,701)	(1,313,242)	(577,498)	(8,521,383)	(236,817)	(335,976)	(702,922)	(243,840)	(168,144)	(203,255)	(91,978)	(1,983,944)	(10,505,327)

$ 8,712,670 =

ATTACHMENT A

EXHIBIT B, PG 1

LOW AND MODERATE INCOME HOUSING FUND (443)

STATEMENT OF SOURCE AND USE OF FUNDS

	2010-2011 Actual	2011-2012 Adopted	2011-2012 Modified	2011-2012 Estimate*	2012-2013 Proposed*
SOURCE OF FUNDS					
Beginning Fund Balance					
Contingency Reserve	150,000	150,000	150,000	150,000	0
Reserve for Encumbrances	40,360,001	40,360,001	29,715,291	19,560,248	19,560,248
Retirement Pre-Payment Reserve	58,220	58,220	58,220	58,220	0
Unrestricted	18,832,240	11,021,962	9,686,175	19,843,218	0
Total Beginning Fund Balance	59,400,461	51,590,183	39,611,686	39,611,686	19,560,248
Revenues					
20% Tax Increment	36,729,077	34,922,188	17,534,000	17,667,514	0
Commercial Paper Proceeds	1,200,000	745,003	0	0	0
Homebuyer Subordination Fee	12,840	4,200	2,680	2,240	0
Interest	170,131	250,000	100,000	58,828	0
Loan Repayments	17,709,943	5,592,000	392,000	2,385,116	0
Miscellaneous Revenue	20,761	100,000	60,000	156,246	0
Multi-Family Project Ownership Transfer Fee	0	2,550	0	0	0
Net Bond Sale Proceeds	10,032	0	0	0	0
Revolving Loan Fund - Teacher Housing Program	303,617	55,000	55,000	0	0
Total Revenues	56,156,401	41,670,941	18,133,680	20,269,944	0
Transfers					
General Fund (Retiree Healthcare)	39,843	0	0	0	0
Redevelopment Obligation Ret. Fd.	0	0	17,420,000	13,864,000	0
Total Transfers	39,843	0	17,420,000	13,864,000	0
TOTAL SOURCE OF FUNDS	115,596,705	93,261,124	75,165,366	73,745,630	19,560,248
USE OF FUNDS					
Expenditures					
City Attorney Non-Pers/Equip	7,783	16,724	4,724	2,736	0
City Attorney Personal Svcs	844,474	496,232	382,189	345,894	0
City Manager Non-Pers/Equip	16,596	18,375	3,375	4,881	0
City Manager Personal Services	19,164	27,012	15,685	14,971	0
Commercial Paper Debt Service	552,235	745,003	745,003	620,000	0
Debt Service	25,357,262	24,967,555	24,967,555	24,967,555	0
Finance Personal Services	158,698	215,001	62,411	53,153	0
HR Personal Services	25,853	30,022	18,649	17,687	0
Hazard Mitigation Grant Match	61,639	800,000	800,000	798,391	0
Homeless Mgmt Info System Support	31,660	0	0	18,340	0
Homeowner Education Program	139,870	57,000	0	10,091	0
Housing Loans and Grants	22,579,298	11,200,000	9,326,834	8,191,169	0
Housing Non-Pers/Equip	724,760	795,634	95,634	249,904	0
Housing Personal Services	6,997,904	5,747,061	2,884,586	2,881,139	0
Housing Predevelopment Activity	31,641	100,000	0	0	0
Housing Rehab Loan	2,671,199	3,000,000	375,000	49,679	0

LOW AND MODERATE INCOME HOUSING FUND (443)

STATEMENT OF SOURCE AND USE OF FUNDS

	2010-2011 Actual	2011-2012 Adopted	2011-2012 Modified	2011-2012 Estimate*	2012-2013 Proposed*
USE OF FUNDS (CONT'D.)					
Expenditures					
IT Personal Services	148,733	0	0	(1,699)	0
Loan Management	130,358	250,000	250,000	(11,449)	0
Overhead	864,180	655,100	655,100	655,100	0
PBCE Personal Services	74,009	0	0	0	0
PW Non-Pers/Equip	6,076	7,650	3,650	3,596	0
PW Personal Services	130,092	130,471	81,940	69,831	0
Rental Assistance Web Search	0	31,000	0	0	0
SJRA Loan	12,815,668	0	0	0	0
Santa Clara County Housing Trust	250,000	250,000	0	0	0
Teacher/First Time Buyer Loan Program	355,000	1,000,000	50,000	50,000	0
Workers' Comp Claims	85,721	150,000	20,000	17,514	0
Total Expenditures	74,880,083	50,689,840	40,742,337	38,888,482	0
Transfers					
Affordable Hsg Invstmnt Fd.	0	0	0	10,155,043	0
City Hall Debt Service Fund	917,436	725,856	725,856	725,856	0
Federated Ret. Fd. - Add'l Payment	0	0	165,554	165,554	0
General Fund - Human Resources/Payroll System Upgrade	0	24,243	24,243	24,243	0
General Fund - Loan Origination and Monitoring Fee	187,500	0	0	0	0
Redevelopment Obligation Ret. Fd.	0	0	0	4,226,204	0
Total Transfers	1,104,936	750,099	915,653	15,296,900	0
Ending Fund Balance					
Contingency Reserve	150,000	150,000	0	0	0
Reserve for Encumbrances	29,715,291	40,360,001	29,715,291	19,560,248	19,560,248
Reserve for Enforceable Obligations	0	0	3,792,085	0	0
Retirement Pre-Payment Reserve	58,220	58,220	0	0	0
Unrestricted	9,688,175	1,252,964	0	0	0
Total Ending Fund Balance	39,611,686	41,821,185	33,507,376	19,560,248	19,560,248
TOTAL USE OF FUNDS	115,596,705	93,261,124	75,165,366	73,745,630	19,560,248

* *As approved by the City Council on January 24, 2012, the City of San José acting as the Successor Housing Agency to the Redevelopment Agency designated the Low and Moderate Income Housing Fund as a Successor Housing Agency Fund effective February 1, 2012. Therefore, the 2011-2012 Estimate column reflects revenues and expenditures for seven months of the fiscal year (July 1, 2011 through January 31, 2012) and any revenue (the transfer from the Redevelopment Obligation Retirement Fund) and expenditure (Commercial Paper Debt Service, Debt Service, Housing Loans and Grants, Housing Non-Personal/Equipment, and a transfer to the Redevelopment Obligation Retirement Fund) estimates for an entire fiscal year that need to flow through the City fund. The 2012-2013 Proposed Budget for the Low and Moderate Income Housing Fund for the Successor Agency will be brought forward separately to the Successor Agency Board for approval in June 2012.*

Section 9

Treatment of SERAF Loans

We are confronted by a unique arrangement and must decide the appropriate accounting treatment in establishing the assets to be transferred to the City Housing Fund (HF) and the appropriate liabilities for the Successor Agency.

General question: Should the Successor Agency be required to list two separate debts as enforceable obligations and pay twice for what was one SERAF Loan to the RDA, i.e., pay once to the Housing Fund for a SERAF Loan and pay separately to the variable rate note holders for debt incurred by the HF which underwrote that very loan.

A second related question: Should the City of San Jose Housing Fund (HF) receive and maintain a SERAF loan on its balance sheet payable by the Successor Agency when the Successor Agency is concurrently paying off bond debt inherited from the Housing Fund which underwrote the loan?

Background: Exhibit A-1 details the basic transaction. In summary, the City and RDA staff was directed by the City Council to develop a financing plan to enable the RDA to make two SERAF payments: a payment of $62 million in May 2010 and a second payment of $12.8 million in May 2011.

The 2010 payment of $62 million came from three sources:

- A $10 million loan to the RDA from three city funds. This is a direct city loan which is not in question.
- A $12 million drawdown from the City's commercial paper program. According to City staff, the Housing Fund used its newly created authority (February 12 and April 8, 2010 Council Memos – Exhibits G & C) to use proceeds on housing projects and lend freed up cash to the RDA as a SERAF loan.
- A $40 million loan from the HF which was the result of an underlying variable rate debt note of $40M (Housing 2010 C TABs, with a total amount of $96M) backed by Wells Fargo Bank. In between, the City again did a legal substitution of cash for loan proceeds, and used existing housing cash of $40 million to make the RDA loan and used the debt proceeds to backfill the cash to fund housing projects. According to the staff reports of November 20, 2009 and February 12, 2010 (Exhibits B & G) this was necessary as lenders would not allow the HF to directly make a SERAF loan from debt proceeds.

The subsequent $12.8 million 2011 payment came directly from HF cash. This is a direct SERAF loan and is not a question. Under these conditions, the HF clearly lent cash and under AB 1484 is entitled to recover this legitimate SERAF housing loan to make it whole.

There is no disagreement as to the basic facts of the transaction itself. The disagreement is to the accounting treatment of this transaction. Should the HF maintain a SERAF receivable (asset) and should the Successor Agency's liabilities include two payment amounts, one to the HF for a $82 million SERAF loan including estimated interest and fees and a second to the variable debt bond holders? A second underlying question: should the entire transaction be viewed as one transaction or, as the City believes,

should it be parsed into two transactions where the debt borrowings by the City and HF and the loan to RDA by the HF are two separate isolated transactions? A final question is why did the City initially include the TAB liability as two separate enforceable obligations but only list the $12 million commercial paper debt once, as a SERAF payable to housing?

Discussion:

The City's position, as shown in Exhibit A-2, is that there were two separate transactions, one to borrow $52 million from the debt markets and a second to make a $52 million 2010 SERAF loan to the RDA. Under this view the HF SERAF loan to the RDA is a valid asset and the Successor Agency should reflect two liabilities, one that it owes to variable rate debt holders for the transferred housing debt from the HF and a second that is payable to the HF for an independent SERAF loan. The City maintains that the HF is owed this money because it was deprived of using this debt capacity and debt proceeds to fund additional housing projects that were in the "development pipeline." Additionally the City believes that it is owed the $52 million of principal, plus future interest and variable rate debt fees that exactly mirror the variable rate debt obligation's interest and fees of $30 million on a prorated basis, plus City costs for loan monitoring fees of $2.3 million (totaling $84.4 million). (See Exhibit F). However, the City initially only listed the $12 million as a SERAF Loan but did not list the underlying Commercial Paper liability on its EOPS or ROPS. Given the similarity of the two loans, this appeared to be an inconsistent accounting treatment. However, when we pointed out this inconsistency, the City added the commercial paper debt of $14,227,000 to its third ROPS (for the period January through June 2013).

The alternate position, as shown in Exhibit A-1, is that this was essentially one transaction; that the whole funding plan was based on one policy mandate to borrow money to provide money to the RDA to make the SERAF payment to the state; that the SERAF loan by the HF was a passthrough vehicle to parallel the variable rate debt obligations virtually to the penny and transfer payments from the RDA to the debt holders, essentially holding the City harmless, and as such it should be written off when the underlying debt is transferred to the Successor Agency; that the Successor Agency should not be required to pay for one SERAF loan twice; that the HF suffered no loss that should entitle it to repayment and, instead, the HF at best incurred a "lost opportunity" not a true financial loss; that the intent of AB 1484 is to make the Successor Housing Agency whole for actual losses, not provide a windfall gain for this odd type of arrangement.

Section 9

Audit Questions:

1.) Did the HF incur an actual loss of funds from this transaction, such that it could have a valid claim to be made whole under the intent of AB 1484?

2.) Was the HF SERAF loan receivable designed to parallel the underlying variable rate debt service and thus serve as a passthrough vehicle to hold the City harmless and transfer money from the RDA to the variable rate debt holders?

3.) Would the proposed accounting treatment and the disclosure on government-wide (full accrual) financial statement make sense under either the City's position or the alternate position?

4.) Was this essentially one transaction or two separate and independent transactions?

5.) Why was there an apparent initial inconsistency in the accounting treatment between the $40 million TAB and the $12 million commercial paper program?

6.) Even if accounting rules allowed this receivable, what would be its appropriate treatment under AB 1484?

Each of these has been examined based on staff memos, loan documents and other evidentiary material.

1.) Did the HF incur an actual loss of funds from this transaction, such that it could have a valid claim to be made whole under the intent of AB 1484?

There is no actual financial loss to the housing fund under this borrowing and simultaneous lending transaction. At best this was a "lost opportunity" of not being able to borrow these funds to develop projects in the HF's "development pipeline."

Through its approval to make this SERAF loan to the RDA, the City Council made a deliberate decision to defer these pipeline projects until after 2015 at best. Further, given the RDA's solvency problems, there was a strong likelihood that this would result in a RDA default in 2015, further delaying pipeline projects while the HF waited for a mandatory 5% increase in the housing set-aside. This was explained in the Council Memo of February 12, 2010 (Exhibit G). Given the RDA's existing debt load and low property tax growth, it is even questionable if the increased 5% set-aside could have occurred without causing a debt default by the RDA. All parties knew of these risks when the Council approved the financing plan. The November 20, 2009 staff report (Exhibit B, page 6) states "If the Agency were to borrow funds from the affordable housing program over the next two years, funds would not be available to make new commitment for affordable housing projects in the pipeline . . . and for the next five years . . . approximately 1000 affordable units would be delayed or lost due to lack of funding."

Conclusion: We see no basis for the claim that the HF should "be made whole" under AB 1484 for a perceived "opportunity loss" which in reality is neither a true financial nor economic loss. By contrast, the 2011 $12.8 million cash payment by the HF to RDA is a perfect example of a true economic loss and SERAF loan #2 is not being challenged for that reason.

2.) Was the HF SERAF loan receivable designed to parallel the underlying variable rate debt service and thus serve as a passthrough vehicle to hold the City harmless and transfer money from the RDA to the variable rate debt holders?

Both the February 12, 2010 Council Memo and the February 23, 2010 loan agreement between the City, the City's Finance Authority, and the RDA (Exhibits G and D) directly tie this SERAF loan to both the underlying variable rated housing debt (Housing Series 2010C of $40 million) and the Commercial Paper note draw of $12 million. Those documents state directly that "In order to make this Loan and to continue to provide an affordable housing program, the Low Mod Housing Fund will need to borrow from the following sources:" and then explicitly detail the two borrowing sources, i.e. the two debt issues.

In addition, the loan agreement (Exhibit D) details that the charges to the RDA directly mirror the underlying interest calculation payable to each source separately. (See also Exhibit E, the August 1, 2012 Housing Asset Transfer List, showing the proposed account receivable to the HF as reflecting the underlying interest and debt obligations.) Further, it passes all underlying costs associated with the $40 million TABs and the $12 million Commercial Paper—including insurance cost, bank fees and third party administrator costs—directly to the RDA on a prorated basis. It clearly states that "The City's obligation to repay the Authority Loan (i.e. the two debt sources) from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below." This contrasts starkly with the 2011 SERAF loan, which was housing cash, and which accrues interest at the City's pool rate. (See Exhibit E.)

In addition, the City's financial plan authorized the expansion of the Commercial Paper Notes up to $34 million for the Housing Fund. According to City staff, $9 million of this increase was to cover the contingency that the RDA could not pay current interest and fee costs when due. In this event, those costs would be rolled over into commercial paper principal until the RDA could start paying. This feature was used to cover approximately $2,227,000 in debt costs not paid by the RDA. This exemplifies the extreme efforts of the City to directly tie the underlying borrowing to the SERAF receivable.

Lastly, the November 20, 2009 staff memo (Exhibit B, page 4) from the Housing Director, in exploring options to borrow funds from the debt market to make the SERAF loan, stated directly that "If the lawsuit (regarding the validity of SERAF payments) is successful, the (variable rate) bonds could be repaid (at any time) by the Agency's repayment of SERAF Loan (to the HF)." This

again shows the intent to pay off the underlying variable rate debt immediately if the funds were not needed to pay the state.

Conclusion: The SERAF loan is a direct passthrough vehicle designed to mimic the underlying variable rate debt and pass the variable rate debt interest and all related costs to the RDA, and to transfer all payments from the RDA back to the Financing Authority to pay off the two underlying debt issues. If the RDA met the loan obligations, the City and the Housing Fund were held harmless for the payment of this debt. Even if the RDA payments were not timely, the Commercial Paper Notes would cover this shortfall until the RDA could meet its obligations.

3.) Would the proposed accounting treatment and the disclosure on government-wide (full accrual) financial statement make sense under either the City's position or the alternate position?

Double entry accounting requires offsetting entries. In the case of the City's position, the $52 million variable loan balances would be written off of the government-wide balance sheet upon the legal transfer of the debt to the Successor Agency and, on the financial statement, the offset would be shown as an increase to the HF fund balance. This could be done by two methods:

1. A revenue item on the income statement, or most probably,
2. An extraordinary item as a credit (increase) directly to fund balance.

Either of these treatments would require note disclosure and both would be considered essentially a one-time windfall event. Under the circumstances, it makes no accounting sense for the HF to record an extraordinary windfall gain especially when this compensates for a non-financial loss and results in a doubling of the liability to be paid from the Successor Agency.

The alternate accounting treatment is very straight forward. The transferred debt reduction would directly offset a write off of the SERAF receivable. Considering the fact that this receivable's only purpose was to provide a passthrough mechanism for the payment of the debt (inclusive of all interest, debt costs, and even payment deferrals), we believe that this asset's write off is the appropriate accounting treatment. Stated another way, this asset lost its value and collapsed when its reason for being terminated, in this case when the debt for which it was created was transferred from the HF fund to the Successor Agency.

4.) Was this essentially one transaction or two separate and independent transactions?

From the fall of 2009 when the City Council called for a financing plan to fund the SERAF payment for the RDA through the spring of 2010 when the first SERAF payment of $62 million was made, no one could have imagined the subsequent laws ending redevelopment, the unique structure of this deal, or the intent of AB 1484. As a consequence, the staff reports and loan documents are especially candid and lay out an express intent to use City and HF credit to borrow from the debt markets to make the RDA's SERAF payment to the State.

Policy Intent: The staff reports of November 20, 2009 and February 12, 2010 (Exhibits B & G) expressly state that the policy mandate was to develop one financing plan to borrow money from the bond market to pay the SERAF payment to the State. The reports indicate that the banks were asked if they would lend for the SERAF directly and that they declined, thus requiring a fund substitution to "free up" cash "to make the SERAF payment." While the financing plan subsequently went through many changes and modifications, the policy intent was clear: to "maintain some housing programs" while borrowing funds to make the SERAF payment. If as the City claims, the debt borrowings and the RDA loan were entirely separate transactions, then why were they both covered in one financing plan and not detailed in independent staff reports? The February 12, 2010 report (Exhibit G, page 2) was particularly explicit in detailing the funding mechanism:

> $52 million will be a loan from the City's Low and Moderate Income Housing Fund (the "Low-Mod Housing Fund") fund balance of which $40 million will be generated through the issuance of Housing Set-Aside Tax Allocation Bonds ("Housing Bonds") and $12 million will be generated through the City of San José Financing Authority's issuance of Commercial Paper ("CP") Notes.

Loan Document: As discussed above (audit question 2) the loan document expressly ties the RDA's SERAF payments directly to the underlying debt obligations, inclusive of interest and all debt related costs, and it clearly states that all payments would come from the RDA. If the RDA met the loan terms, the City was held harmless from the issued variable rate debt payment obligations.

Conclusion: The City is essentially making its entire argument for the double charge to the Successor Agency on the premise that the cash substitution makes the funding two independent transactions and, therefore, even though there was no loss incurred the HF, the Fund is, nonetheless, entitled to an extra payment of $82 million. This is a false premise. This transaction should be viewed in its entirety as one transaction. Any intermediate steps imposed by the lenders for a cash substitution were a requirement to obtain financing, but do not change the basic intent to borrow funds from the debt market to make the SERAF payment.

5.) **Why was there an apparent inconsistency in the initial accounting treatment between the $40 million TAB and the $12 million commercial paper program?**

This question was asked to the City staff on a phone call on August 14, 2012 by County staff. The City eventually responded that this probably was an omission in preparing the EOPS and ROPS, and it did not rule out the possibility of adding the $12 million to a future ROPS. Consequently, the city subsequently added $14,222,000 to its third ROPS. Nonetheless, this initial inconsistent treatment raises the implication that the City appropriately viewed the $12 million commercial paper transaction as a pass-through liability.

6.) **Even if accounting rules allowed this receivable, what would be its appropriate treatment under AB 1484?**

Health and Safety Code section 34176(e) specifically defines "housing asset" for purposes of RDA Dissolution. The definition generally includes repayments of loans or deferrals owed to the Low and Moderate Income Housing Fund. (See Health and Safety Code section 34176(e)(6).) However, that definition is predicated on the existence of a valid receivable, which the evidence described herein and accounting principles forecloses. But even if a valid receivable existed, "If a housing asset has been previously pledged to pay for bonded indebtedness, the successor agency shall maintain control of the asset in order to pay for the bond debt." (Health and Safety Code section 34176(a)(2).) In this case, the City has argued for the purposes of the "reverse waterfall" in Health and Safety Code section 34183(b), that the repayment of the Housing Bond and the Commercial Paper are "bonded indebtedness." And here the loan document provides for the pass-through of the SERAF loan for their repayment. Therefore, the receivable would remain a Successor Agency asset and, accordingly, collapse down against the underlying debt listed on the ROPS.

General Conclusion: No matter which way this is examined, this is an accounting issue. We are being asked to establish assets and liabilities for the Successor Agency based on our expertise and professional judgment in compliance with the generally accepted accounting principles and in performing the AUPs.

Common sense accounting does not support the idea that one receipt of money from one loan should cause the Successor Agency to pay twice for that one loan. The City denies that this is "double accounting" by arguing that both debts are enforceable obligations based on two separate transactions. We do not believe that the evidence examined supports the City's position that these were two entirely separate transactions and should be paid twice for essentially one loan to the RDA. Nor do we believe that it is in the public interest or in the intent of ABX1 26 and AB 1484 to double an $82 million liability to the Successor Agency based solely on a cash substitution scheme. Finally, the asset could not transfer to the HF in any event.

We are therefore denying $82 million of the SERAF #1 loan to the Housing Fund. This represents the principle of $52 million and the estimated interest and fees of $30 million. We believe that

the $2.4 loan monitoring fees, separately listed on the ROPS, is enforceable under the loan agreement and this amount is not double counted.

Given the elimination of all SERAF loan #1 payments due to the HF, the assets transferable to the Housing Successor Agency (Section 1, Line 4) is reduced to its net realizable value of $12,815,668 representing the 2011 SERAF loan #2. Interest on that loan should be accrued as earned by the Housing Fund.

The City may provide an appropriate response and submit their rebuttal to the DOF with this AUP report. The State Department of Finance will make the final determination.

Attachments:

Exhibit A – Flow chart of 2010 SERAF Loan Proceeds of $62 million

Exhibit B – Council Memo November 20, 2009 Re: Financing options

Exhibit C – Council Memo April 8, 2010 Re: Commercial Paper Program

Exhibit D – SERAF Loan Agreement of February 23, 2010

Exhibit E – Housing Asset Transfer List of August 1, 2012, Exhibit G Deferrals

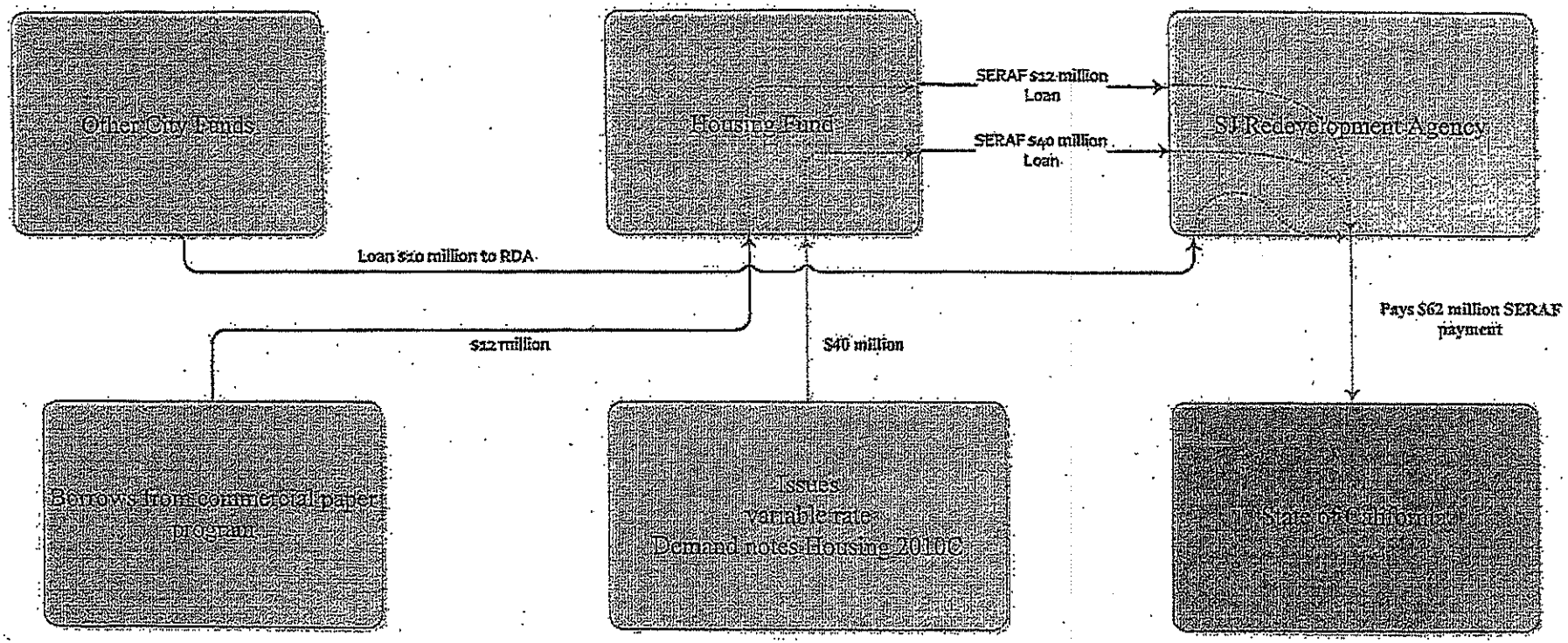
Exhibit F – ROPS City Backup SERAF Loans #1 & #2

Exhibit G – Council Memo of February 12, 2010

EXHIBIT A–1

City of San Jose

2010 Detail of Sources for SERAF Payment to the State of $62 million

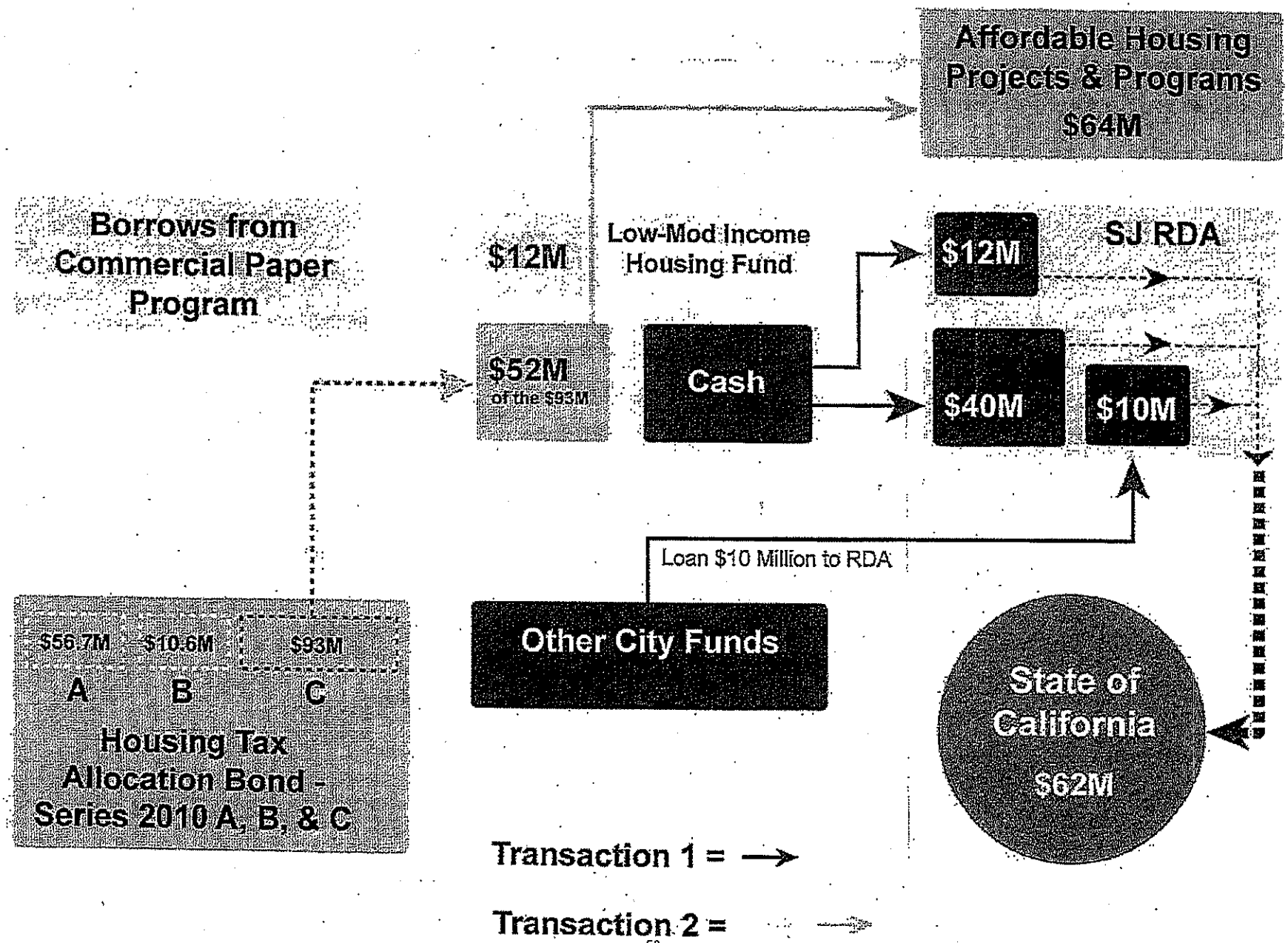


* Included "freeing up" cash for these loans to the RDA by backfilling funding of existing housing project with Loan proceeds per staff reports this was mandated by Lenders.

ATTACHMENT A

EXHIBIT A-2

City of San Jose 2010 Detail of Sources for $62 Million SERAF Payment to the State



ATTACHMENT A

EXHIBIT B

Distributed on:
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by City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: **Transmittal of Memo Responding to RDA Budget Document #11**

DATE: November 20, 2009

INFORMATION

Attached is a memorandum from Housing Director Leslye Krutko which 1) responds to questions posed by Councilmember Pyle and Councilmember Liccardo in RDA budget document #11 as well as 2) provides an overview of the efforts to date to evaluate options for paying for all or some of the RDA state take of $75 million by borrowing from 20% housing funds. I would like to convey to the Mayor and City Council the following key points:

1) The Housing Director and other members of the City Administration have been working diligently for quite some time with Agency staff to fully evaluate all options for borrowing Housing funds.
2) Although a full range of options from limited to maximum borrowing have been explored, the RDA and City staff have tried to develop borrowing scenarios which maintain some housing programs. The guiding principles referenced in the memorandum have been our administrative guide but do not dictate council policy decisions.
3) The extensive research and work to date has been with the assistance of the Housing and RDA financial advisor and has included discussions with some of the banks with whom the City has existing relationships. A snapshot of work and findings to date is provided. Information continues to evolve, including the impact of the legal analysis of the legislation which allows for housing borrowing. The final answer on any Council direction to borrow will be determined once the City formally accesses the credit markets. Only then will all required information regarding terms and impacts be known.
4) As I have stated repeatedly, these are challenging times. The Mayor and City Council have difficult policy decisions to make in resolving fiscal issues confronting both the City and RDA. The Administration will continue to work to ensure that the Mayor and City Council have the best information and policy advice we can provide in order to assist you to make informed decisions. My staff and I will continue to work collaboratively with the RDA to assist where needed.

Debra Figone
City Manager

SENT TO COUNCIL: ~~Distributed on:~~

NOV 2 0 2009

by City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: November 20, 2009

Approved

Date 11/20/09

INFORMATION

SUBJECT: **AGENCY PROPOSED BUDGET—QUESTIONS REGARDING THE IMPACT OF THE BUDGET PROPOSAL ON THE CITY'S AFFORDABLE HOUSING PROGRAM**

This Memorandum responds to questions posed by the Mayor and City Council, including those detailed in Councilmember Liccardo and Pyle's November 12th memorandum, regarding the proposal to use the City's Affordable Housing funds to pay for the $75 million State SERAF obligation. Per State legislation, the Agency must make a $62 million payment to the State by May 2010 and a $12.8 million payment by May 2011. The legislation allows for several options for making the SERAF payment, including using any legally available 80% funds, borrowing or suspending payment to the 20% Housing Fund, using any other available revenue sources.

The proposed Agency budget envisions two payments from the Housing Department to pay the State—a $40 million payment in the current fiscal year, and a $35 million payment in Fiscal Year 2010-11. As required by State law, any funds borrowed from the Affordable Housing Fund ("Housing Fund") must be repaid within five years. Therefore, the first year proposed borrowing of $40 million in FY 09-10 must be paid back by June 30, 2015 and the proposed second year borrowing of $35 million in FY 10-11 must be paid back by June 30, 2016. Should the funds not be paid back by these dates, the Low and Moderate Income Housing Fund will increase from the current 20% level to a 25% Fund.

It should be noted that an outstanding issue remains regarding how much the Agency can borrow more from the Housing Fund in the second year than the amount due to the State for the second year SERAF payment. The Agency proposes to borrow $35 million from the Housing Fund in Year 2 when the amount of the actual payment due from the Agency to the State is only $12.8 million. This issue would need to be resolved if the City Council were to take an action in Year 2 to borrow these funds from the Affordable Housing Fund.

Current Situation

Because of the nature of affordable housing construction, Housing Department ("the Department") funds are committed early in the life of the development and are typically drawn down over time as projects progress through construction (construction draws). As a result, the borrowing strategy for the Department in the past has been to draw on a line of credit, which is then taken out by a long-term bond issuance once the line of credit has been expended or committed to housing projects. This strategy has worked well for the affordable housing program as it achieved flexibility and efficiency by ensuring that funds are available when needed, and at lower short term borrowing costs. Once the line of credit was fully utilized, the long term bonds were issued; the line of credit was repaid and subsequently replenished for future use of new projects. This strategy has enabled the Department to issue long-term bonds only when needed and, in so doing, it has preserved future bonding capacity.

In October 2008, the Department's existing line of credit provider, the Bank of New York, chose to exit the municipal finance industry, including providing letters of credit and lines of credit. This decision affected the Department in two respects as Bank of New York also provides a letter of credit to secure approximately $56.7 million of variable rate demand bonds – that letter of credit expires in June 2010.

As a result of Bank of New York's pronouncement, the Department drew on the full line of credit, which then converted to a five-year term, low interest rate loan with $2.5 million quarterly principal payments ($10 million per year for 5 years). This payment now adds to the approximate $20 million in annual debt payments the Department makes on outstanding tax allocation bonds. The Department now spends $30 million of its $40 million (75%) in tax increment to cover annual debt service payments

In April 2009, after the financial markets began to show signs of settling down, the Department assembled a financing team, comprised of staff from the Department, the Finance Department, the Redevelopment Agency, the City Attorney's Office, and financial advisors, to obtain a replacement line of credit for the City's affordable housing program. The team canvassed the universe of banks that provide credit facilities – a universe that had contracted significantly in the past few years in light of systemic financial meltdown. The only bank that was willing to engage in a conversation with respect to a replacement line of credit was Wells Fargo, who recently had become the City's depository bank. The other banks were not interested either because of their concern with redevelopment credit in general statewide and/or because they did not have an existing business relationship with the City. In the current banking market, banks typically will need to have both comfort with the credit and the opportunity to provide other banking services. However, after much analysis, Wells Fargo was not willing to provide a replacement line of credit because it would need to be paid *after* the debt service on the Department's existing obligations (including the Bank of New York term loan). As a result, and because all other available affordable housing cash has been committed to projects, the Department has not made new funding commitments since last Spring. As a result of the existing credit situation and its careful approach to issuing bonds in the past, the Department has borrowing capacity available.

Affordable Housing Pipeline

Attachment A details the affordable housing projects in the development pipeline that have been awaiting funds once the Department is able to secure a new line of credit. This chart details the amount of City funds requested, the amount of funds already spent by the developer on predevelopment activities, and the amount needed to purchase the site. Additionally, information on economic development and readiness is provided to show the estimated number of jobs that will be created, the amount of revenue the City will collect as a result, and how soon the development could begin construction.

Mechanics of Borrowing/Guiding Principles

In order to provide the City Council with the opportunity to make a policy decision regarding the loan of Affordable Housing funds to pay all or a portion of the SERAF payment, the financing team has been working on a strategy that could provide the needed funds. The Department has worked closely with internal partners and with its financial advisor to develop a successful borrowing strategy.

In structuring a potential borrowing, the Housing Department and Redevelopment Agency jointly agreed on basic guiding principles including:

1. Department would model a loan of $40 million in Year 1 and a loan of $35 million in Year 2 to the Agency to fund SERAF to mirror the Agency's proposed revised budget.
2. The Department's core programs of Housing Rehabilitation (emergency repairs, health and safety repairs), Mobilehome Rehabilitation, and the Teacher Homebuyer Program remain funded.
3. All current commitments as evidenced by City Council approval be honored (see Attachment B – List of Current Project Commitments)
4. The Markham Terrace project, which must be rebuilt due to HUD financing requirements, would be funded.

The strategy to accomplish both the goal of providing funding for the Agency to make the SERAF payment in accordance with the stated guiding principles would involve two separate borrowings. The costs to issue the bonds attributed to the SERAF payment for the five year period from issuance until the loan is repaid is estimated at $28 million (exclusive of the costs associated with refinancing the line of credit loan).

1. **Year 1 (FY 2009-10)** – The Department would issue $50 million taxable variable rate bonds backed by a letter of credit bank. This approach would net approximately $45 million after issuance costs and reserves, and at the same time refinance the Department's $56.7 million in tax-exempt variable rate bonds to fixed-rate bonds. The $50 million is the amount of variable rate debt believed to be financially feasible and prudent for the Housing program and is consistent with the amount the Wells Fargo had been considering in connection with the line of credit deliberations. The benefits of this borrowing approach are multi-fold:

a. Flexible financing – unlike fixed rate debt, these bonds could be repaid at any time should the California Redevelopment Association (CRA) lawsuit challenging the SERAF payment be successful. If the lawsuit is successful, the bonds then could be repaid by the Agency's repayment of SERAF loan.
b. Low Cost Financing – This strategy takes advantage of lower variable rate interest rates; projected at 4.5% versus a range of 7.5% to 8.0% for fixed rate debt. In the current market, the variable interest rate is approximately 0.30% plus letter of credit fees.
c. Mitigates uncertainty and Benefits from ARRA - Refunds the Department's existing variable rate bonds with fixed rate bonds which have a letter of credit with Bank of New York expiring on June 2010. Benefits from a provision in the federal stimulus package that enables qualifying bonds to be issued on a fully tax-exempt basis rather than tax-exempt bonds subject to AMT (alternative minimum tax), thereby saving on interest costs. The bonds being refinanced from variable to fixed rate are the bonds eligible for the provision in the federal stimulus package.
d. Work Underway – A financing team has already been working on this option.

1. **Year 2 (FY 2010 – 11)** – The Department would seek to issue an estimated $75 - 80 million in taxable bonds, which would net $68 - 72 million. The proceeds would be used to repay the outstanding balance on the Department's existing line of credit loan with Bank of New York and provide funds for the proposed $35 million loan to the Agency for the SERAF payment.

The financing team considered several other options, including borrowing the full amount of the SERAF payment in Year 1. This option was not pursued, however, because it did not meet the guiding principles noted above and did not provide the benefits of the Year 1 variable rate borrowing. As detailed by the Department's financial advisor, the reasons why this is not practical or recommended include:

1. If the Department were to attempt a borrowing for the full $75 million in the first year, it would be necessary to borrow in excess of $125 million. A borrowing of this size would be required because the Department would need to repay its line of credit loan in order to have sufficient cash to cover the new debt service payment.
2. The borrowing would need to be completed on a fully taxable basis; a much more expensive strategy (an estimated 8%+ annually).
3. Bonds would not be able to be repaid should the CRA lawsuit be successful and given the size of the financing it would be difficult for the Department to spend these funds in an expedited manner, since funds are needed for construction draws over time. This increases the costs to the Department, as debt service must be paid on funds that are not drawn down.
4. Insufficient funds would be available to pay for the core Department programs listed above, or to pay for the development of the Markham Terrace project.
5. Department would be highly leveraged, which could potentially result in a rating downgrade and ultimately higher borrowing costs.

6. Untested strategy with potential bond buyers and it is unknown as to whether there would be sufficient interest from potential investors. A recent survey of taxable bond deals completed in 2009 shows that four California communities successfully issued fixed rate taxable tax allocation bonds this year. The particulars of these four deals included; largest issue was $75 million; longest maturity was 15 years; and the debt coverage ratios ranged from a low of 1.31x to a high of 3.78x. In this borrowing scenario, the Housing Department's bond issue would be larger, with a much longer maturity (30 years); and at a lower debt coverage ratio.

The financing team also looked at two other possible options:

1. A Two-Year Strategy If the Variable Rate Proposal Was Infeasible—This strategy would include the issuance of two fixed rate taxable bond issues, one in the current fiscal year that would net $40 million and one next fiscal year that would net $31 million.
2. Borrowing $62 million in Year 1 and $13 million in Year 2—With the increased size of the Year 1 borrowing (from $40 million to $62 million), it would be necessary to repay the line of credit loan in Year 1.

These options were not pursued because they proved to have the same shortfalls as the one-year borrowing strategy detailed above.

Financial Market Interest

To date, the financing team has not been able to find a bank willing to provide a letter of credit for a $50 million variable rate taxable bond issue if the bond proceeds were to be used to make SERAF payments. Wells Fargo Bank initially declined to participate if the funds were used to pay the State, but left the door open if the City instead wanted to borrow to fund affordable housing projects. Bank of America (BofA) declined to participate for either the SERAF or affordable housing purposes, citing concerns about the economy and the potential for a reduction in tax increment revenues.

The City has not approached other banks to provide a letter of credit, largely because BofA and Wells Fargo have established working relationships with the City and are familiar with the credit, discussions have been underway for nearly a year, and both banks have been disinterested in providing the letter of credit to date. As noted earlier, other banks are reluctant to extend credit for redevelopment agencies and in reality are not providing letter of credits to organizations where a prior business relationship does not exist.

The financing team has continued to discuss options with the Wells Fargo and BofA and address concerns they have raised. The most promising alternative under discussion with Wells Fargo Bank is a scenario where the City would proceed with issuing the $50 million in variable rate taxable bonds and refinance the existing variable rate bonds as taxable bonds, using the proceeds to fund affordable housing projects. The cash that is now committed to those projects could be freed up and made available to make the SERAF payment. Wells Fargo Bank is evaluating this

option, and current conversations have been cautiously optimistic. Wells Fargo has indicated, however, that they will need to have a complete understanding of what projects would be funded and how the Agency planned to address the State take prior to making any decision in order to ensure that bond proceeds were being used for housing projects. It also indicated that it may include a prohibition against the use of bond proceeds to fund SERAF directly. BofA is also reconsidering its initial decision and is considering additional security (e.g., loan repayments) to provide a higher comfort level for the bank. We expect to get additional feedback from both banks in the next couple of weeks.

It should be noted that the Agency anticipates issuing $30 million in bonds in the same timeframe as the proposed Housing Department borrowing. We will need to be cautious in how we coordinate the disclosures for the two borrowings and timing of the bond issues as to not to compete for the same set of investors and potentially confuse the market.

With respect to a Year 2 borrowing, no conversations have taken place with potential investors or credit providers. It is premature to do so although disclosure of future borrowing plans will need to be made in the offering documents and rating agencies for the Year 1 borrowing. The ability to borrow in the future in the projected amounts will be dependent on a number of factors: tax increment revenues, interest rates, and the investor's comfort with the debt coverage ratio (essentially how leveraged will the Department be) and the amount of projected loan repayments that help defray the Department's costs of administering its programs. If the Department were to borrow/finance the full $35 million as presented in the Agency's proposed budget, assuming no change in increment or market conditions, it would be highly leveraged. A highly leveraged position could lead to a potential reduction in the rating on Housing Tax Increment bonds, currently rated at A2/A/A, resulting in higher interest rates and a smaller investor base.

Impact on the Housing Program

If the City Council approves the two-year borrowing strategy presented by the Housing Department as outlined above, the Department would continue to administer its rehabilitation and first-time homebuyer programs as well as its grant programs and other important efforts (including foreclosure assistance and homeless prevention) assuming no change in tax increment. Additionally, the Department would continue to monitor its $600 million loan portfolio with 1,600 loans outstanding.

The two-year borrowing strategy would have a direct impact on the Housing Program's new construction program. New affordable housing construction projects require considerable subsidy. If the Agency were to borrow funds from the affordable housing program over the next two years, funds would not be available to make new commitments for affordable housing projects in the pipeline (as described above) and for the next five years (assuming the Agency's tax increment projections.) The Department estimates that approximately 1,000 affordable units would be delayed or lost due to the lack of funding.

Please see Attachment C, which outlines the Housing Department budget for the six-year period that includes the current fiscal year. This attachment includes tax increment funds as well as

other State and federal funds administered by the Department. Note that it is hard to predict funding in the out years, as much of the Department's funding is as a result of competitive funding applications and will be dependent upon monies available at the State level. (Much of the bond funding approved by Proposition 1C has been committed, so opportunities may depend on the State's effort to create a permanent source of funding for housing). We would expect that the Department would continue to be successful in obtaining additional funding for homeless programs, and for our rehabilitation and homebuyer efforts. There is not, however, other funding available to replace the monies for new construction efforts.

This is a very difficult time, with difficult choices that need to be made. The Housing Department has worked together with the financing team to seek funds that could be used to make the State payment. Clearly, the hope is that CRA wins its lawsuit and that it will be unnecessary to make the SERAF payment to the State. However, in the meantime, the funds must be set aside.

It is important for the Council to understand the implications of addressing the entire Stake take with the City's affordable housing funds. This memorandum is intended to provide the Council with the information necessary to make an informed policy decision in this regard.

Coordination

This memorandum was coordinated with the Finance Department, the Office of the City Attorney, and the Housing Department's financial advisor.

LESLYE KRUTKO
Director of Housing

For questions, please contact Leslye Krutko, Director of Housing, at 535-3851

Attachment A—Projects in the Housing Department's Development Pipeline

Financial Information	Total # of Units	City Funds Spent	Funds Requested	Developer Predev Money Spent	Land Purchased	Amt Needed to Purchase Land
2nd Street Studios – First Comm. Housing	134		13,235,000	1,165,181	no	4,100,000
Leigh Avenue – First Comm. Housing	64		6,335,000	691,404	no	2,660,700
Rosemary Seniors – ROEM	106	3,700,000	11,910,000	500,000	yes	N/A
Rosemary Family – ROEM	184	6,300,000	6,840,000	500,000	yes	N/A
Donner Lofts – Affirmed	156		12,233,384	700,000	no	3,995,000
Ford and Monterey – Eden Housing	95	7,000,000	6,500,000	350,000	yes	N/A
Japantown Seniors – First Comm. Housing	75		7,410,000	300,202	no	2,175,000
Willow Glen Woods – Satellite Housing	77	3,545,000	4,750,000	100,000	yes	N/A
Blossom Hill – Charities Develop.	152		22,365,000	350,000	no	8,250,000
2500 Senter – Charities Develop.	122		13,460,000	350,000	no	5,160,000
Park & Delmas – Midpeninsula Hsg.	85		8,500,000	25,000	no	4,000,000
Edenvale – Midpeninsula Hsg.	110		8,800,000	25,000	no	Donation
163 Baypointe – EAH	184	100,000	23,641,557	0	no	12,000,000
TOTALS	1,544	$20,645,000	$145,978,941	$5,056,787		$42,340,700

Economic Development and Readiness	Est. Construction Jobs	Est. Permanent Jobs	Est. City Fees and Taxes	Zoning	PD Permit	Start of Construction 6-12 mo	12-24 mo	24-36 mo
2nd Street Studios – First Comm. Housing	125	38	729,630	Y	Y	X		
Leigh Avenue – First Comm. Housing	60	18	348,480	Y	Y	X		
Rosemary Seniors – ROEM	99	30	577,170	Y	Y	X		
Rosemary Family – ROEM	278	70	1,001,880	Y	Y	X		
Donner Lofts – Affirmed	145	44	849,420	Y	Y	X		
Ford and Monterey – Eden Housing	134	36	517,275	Y			X	
Japantown Seniors – First Comm. Housing	70	21	408,375			X		
Willow Glen Woods – Satellite Housing	116	29	419,265				X	
Blossom Hill – Charities Develop.	141	43	827,640					X
2500 Senter – Charities Develop.	184	46	664,290					X
Park & Delmas – Midpeninsula Hsg.	128	32	462,825					X
Edenvale – Midpeninsula Hsg.	166	42	598,950					X
163 Baypointe – EAH	278	70	1,001,880	Y			X	
TOTALS	1,924	519	$8,407,080					

Attachment B-- Affordable Units - Estimated Completion Based on Housing Department Making $75 million Payment ($40 million in Year 1, $35 million in Year 2)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	TOTAL
Fairways at San Antonio (completed 8/09)	86						
Hillsdale Townhouses (est. completion 11/09)	48						
Corde Terra Seniors (est. completion 12/09)	201						
The Commons (Bill Wilson)		28					
Roundtable Drive Four-plexes		8					
Brookwood Family			84				
North 4th Street			100				
Cornerstone at Japantown			53				
Orvieto Family			92				
Belovida Seniors			180				
McCreery Courtyards				79			
90 Archer St.				42			
Markham Terrace				102			
Kings Crossing				92			
Family Shelter				35			
Total Number of Units Completed	335	36	509	350	0	0	1230

Attachment C—Housing Department Budget with SERAF Take of $40 Million in Year 1 and $35 Million in Year 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	TOTAL
New Construction	$64,759,868	$15,563,801	$9,085,000	$8,750,000	$8,259,353	$10,759,353	$117,177,375
Rehabilitation	$7,428,300	$5,500,000	$4,500,000	$4,500,000	$4,500,000	$4,500,000	$30,928,300
First Time Homebuyers	$20,965,000	$10,500,000	$4,000,000	$4,000,000	$4,000,000	$4,000,000	$47,465,000
Homeless Programs	$6,677,600	$4,606,600	$1,242,600	$1,242,600	$1,242,600	$1,242,600	$16,254,600
Grant Programs	$6,181,800	$2,203,000	$796,000	$796,000	$796,000	$796,000	$11,568,800
TOTAL	$106,012,568	$38,373,401	$19,623,600	$19,288,600	$18,797,953	$21,297,953	$223,394,075

EXHIBIT C

COUNCIL/SJFA: 04-20-10
ITEM: 2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL AND CITY OF SAN JOSE FINANCING AUTHORITY BOARD

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: April 8, 2010

Approved Deanna Santana

Date 4/9/10

COUNCIL DISTRICT: Citywide

SUBJECT: **ACTIONS RELATED TO THE CITY OF SAN JOSE FINANCING AUTHORITY'S COMMERCIAL PAPER PROGRAM AND AMENDMENTS TO THE CITY OF SAN JOSE FINANCING AUTHORITY BYLAWS**

RECOMMENDATION

It is recommended that the City Council adopt a resolution to:

a. Approve an amendment to the Amended and Restated Trust Agreement and authorize other related actions relating to the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program in order to allow issuance of Commercial Paper Notes to fund a loan to the Low and Moderate Income Housing Fund in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency, and to allow issuance of Commercial Paper Notes to fund advances to the City in the event there is a need to address unanticipated or seasonal cash flow deficiencies.

It is recommended that the City of San José Financing Authority Board:

a. Adopt a resolution to approve and authorize the execution of an amendment to the Amended and Restated Trust Agreement and authorize other related actions relating to the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program in order to allow issuance of Commercial Paper Notes to fund a loan to the Low and Moderate Income Housing Fund in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency and to allow issuance of

Commercial Paper Notes to fund advances to the City in the event there is a need to address unanticipated or seasonal cash flow deficiencies.

b. Adopt a resolution to amend and restate Resolution No. SJFA-1 in order to modify the City of San José Financing Authority's regular meeting schedule, to confirm the appointment of Authority officials, to adopt Amended and Restated Bylaws, and to update the reference to the Conflict of Interest Code, to clarify that members of the Governing Board of the City of San José Financing Authority are subject to the provisions of the Conflict of Interest Code of the City, adopted by the City Council on March 24, 2009 by Resolution No. 74837, as may be amended.

OUTCOME

Approval of these recommendations will allow the issuance of Commercial Paper Notes to fund a loan to the Low and Moderate Income Housing Fund in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency and allow issuance of Commercial Paper Notes to fund short term cash flow needs of the City. It will also authorize certain amendments related to the bylaws of the City of San José Financing Authority.

BACKGROUND

On January 13, 2004, the City Council and the City of San José Financing Authority Board (the "Authority Board") approved the implementation of a tax-exempt Lease Revenue Commercial Paper ("CP") Program to provide funding for certain projects related to the new City Hall, including an off-site employee parking garage, technology, furniture, equipment and relocation costs, and interim space planning costs. The total amount authorized to be issued under the CP Program at that time was $98.0 million.

On June 21, 2005, the City Council and the Authority Board approved the issuance of taxable CP Notes in order to increase the CP Program's flexibility with respect to a portion of the previously identified projects. The aggregate total amount authorized to be issued under the CP Program remained at $98.0 million.

On November 15, 2005, the City Council and the Authority Board approved the expansion of the CP Program to provide additional funding for the "Integrated Utility Billing, Customer Service and Performance Management System" (the "CUSP Project") and to expand the list of authorized uses to include the Central Service Yard Phase II Project and the demolition of the City's Main Yard.

At the time of the City Council/Authority Board approval of the expanded CP Program, approval was also received to authorize the Authority to have up to $116.0 million in CP Notes outstanding at any time. It was also contemplated that the City could at a future date authorize the issuance of CP Notes to provide funding for additional projects.

On May 22, 2007, the City Council and the Authority Board approved the issuance of CP Notes in an amount not to exceed $8.25 million to provide funding for capital enhancements to HP Pavilion which is owned by the City and operated by San Jose Arena Management under the Amended and Restated San Jose Arena Management Agreement.

At the January 13, 2004 joint meeting of the Authority Board and the City Council, the City Council conducted a public hearing in accordance with Government Code Section 6586.5 regarding the issuance of the CP Notes for the authorized projects. The City Council also conducted a public hearing in accordance with Government Code Section 6586.5 at the joint meetings of the City Council and the Authority Board on November 15, 2005 and May 22, 2007 when the City Council and the Authority Board approved additional projects and purposes for which CP Notes may be issued.

On October 21, 2008, the City Council and the Authority Board approved the issuance of CP Notes to refund bonds and other obligations of the City or the Authority pursuant to Government Code Sections 53570 et seq and 53580 et seq.

On December 8, 2009, the City Council and the Authority Board approved Amendment No. 2 to the Letter of Credit and Reimbursement Agreement extending the maturity date of the Letter of Credit to January 27, 2013 and amended certain provisions of the Letter of Credit and Reimbursement Agreement in connection with such extension.

On February 23, 2010, the City Council, the Authority Board, and the Redevelopment Agency Board (the "Agency Board") authorized execution of a loan agreement by and among the City, the Authority, and the Agency, including a loan to the Low and Moderate Income Housing Fund financed by the issuance of Commercial Paper Notes.

ANALYSIS

Overview

The CP Program utilizes a lease revenue financing structure. The City has leased to the Authority various City-owned facilities pursuant to a Site Lease (as amended, the "Site Lease"). The Authority subleased these same facilities back to the City pursuant to a Sublease (as amended, the "Sublease") in exchange for the rental payments which support repayment of the CP Notes. The facilities subject to the Site and Sublease are: the former City Hall, the Health Building, and the "C" and "E" parking lots located at the former City Hall site, the San José

Museum of Art, the Tech Museum, the Mexican Cultural Heritage Plaza, the former Martin Luther King Main Library, the Animal Care Center, Fire Station No. 1, the Mabury Yard and the South Yard.

The Authority issues the CP Notes under the Marks-Roos Local Bond Pooling Act of 1985 pursuant to an Amended and Restated Trust Agreement, between the Authority and Wells Fargo Bank, National Association (as amended and supplemented, the "Trust Agreement") and an Amended and Restated Issuing and Paying Agent Agreement between the Authority and Wells Fargo Bank, National Association. Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The CP Notes are backed by a Letter of Credit ("LOC") issued by State Street Bank and Trust Company and the California State Teachers' Retirement System (together, the "Banks"), pursuant to the Letter of Credit and Reimbursement Agreement (as amended, the "Letter of Credit Agreement"). Per the terms of the Letter of Credit Agreement, the Banks are not jointly responsible for payments on the draws made on the Letter of Credit. The respective obligations of the Banks are: State Street Bank -- 75% and the California State Teachers' Retirement System -- 25%. The current Letter of Credit Agreement between the Authority and the Banks expires on January 27, 2013.

Third Supplement to the Amended and Restated Trust Agreement

The proposed amendments to the Amended and Restated Trust Agreement will allow the issuance of Commercial Paper Notes for the purpose of funding a loan to the Low and Moderate Income Housing Fund (the "Low-Mod Housing Fund") in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency and to allow issuance of Commercial Paper Notes to fund advances to the City to address the City's unanticipated or seasonal cash flow needs.

The form of the proposed Third Supplement to the Amended and Restated Trust Agreement will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about April 9, 2010. Staff recommends that the Executive Director of the Authority or the Executive Director's designees (the "Authority Designated Officers") be authorized to execute these amendments as posted, on behalf of the Authority, as applicable, with such modifications as the Authority Designated Officers determines to be desirable or appropriate, upon consultation with the City Attorney. Staff also recommends that the changes to the Third Supplement to the Amended and Restated Trust Agreement from the posted draft be subject to the approval of the City Manager or the Assistant Director of Finance or their designees (the "City Designated Officers") upon consultation with the City Attorney.

Low-Mod Housing Fund

The Low-Mod Housing Fund is established under and pursuant to the Community Redevelopment Law and is administered by the City. The loan agreement was authorized by the City Council, the Agency Board and the Authority Board at their joint meeting on February 23, 2010. As stated in the February 23, 2010 Council Memorandum, the Authority will issue CP

8/4/12 Per city Staff:
2010 Anticipated $12m
2011 Anticipated $13m
$25m

Notes in an amount sufficient to fund $25 million of low and moderate income housing program activities and the associated capitalized interest and fees over the term of the loan. The total issuance amount is estimated at $34 million but the actual issuance amount may vary depending on the financial market conditions over the term of the loan.

The loan proceeds will be utilized to fund low and moderate income housing activities, which include, but are not limited to, affordable multi-family housing projects, loans for housing rehabilitation, teachers' and other homebuyers housing loans and Low-Mod Housing Fund administrative costs. Staff expects that the Commercial Paper Notes issued for the loan to the Low-Mod Housing Fund will be fully repaid over six years. The proposed amendment to the Amended and Restated Trust Agreement will permit the City to continue these critical housing programs that are part of the City's strategic plan to promote economic development within the City.

There are several benefits associated with using the CP Program to fund affordable housing activities, including the relative low cost of the program (e.g. the all-in cost for the most recent CP Notes sale in March 2010 was approximately 2%), market demand for high quality CP Notes, and matching of funding date to the actual issuance of the CP Notes which minimizes actual interest expense.

City Cash Flow Financing

To help facilitate better cashflow management for the City, short term interim financing may be needed due to the timing gap between when the City receives revenues versus when the City is required to make payments of its obligations. The proposed amendments would allow the Authority to issue CP Notes to meet short term cash flow needs of the City, if required, in amounts approved by the City Council and Authority Board. There are no immediate plans to use CP Notes for cashflow financing needs of the City, however, executing the amendment at this time provides the most flexibility to use CP Notes if an unanticipated or seasonal cash flow gap occurs. A seasonal cash flow gap arises when the City's expenditures exceed its revenues due to the timing of the receipt of the City's major revenue sources such as property tax revenues. Public agencies frequently issue tax and revenue anticipation notes in order to cover this gap due to the timing of its receipts. The proposed amendments would allow the City to issue CP Notes instead of tax and revenue anticipation notes when staff's analysis indicates that issuing CP Notes would be more advantageous to the City than the issuance of tax and revenue anticipation notes.

Amended and Restated Resolution No. SJFA-1

On December 15, 1992, the Authority Board adopted Resolution No. SJFA-1 which among other things, established the time and place of regular meetings of the Authority as the second Tuesday of August at 1:30 p.m., adopted the Bylaws of the Authority, and adopted a Conflict of Interest Code.

Effective January 1, 2010, State law requires that a joint powers authority, such as Authority approve issuance of debt at a regularly scheduled meeting. Since the current meeting schedule would limit the Authority's ability to issue debt to a single meeting, staff proposes that the Authority's meeting schedule be revised in order to provide the City and the Authority with flexibility regarding the timing of the Authority's issuance of debt.

The proposed resolution amending and restating Resolution No. SJFA-1 modifies the regular meeting schedule of the Authority Board to coincide with the meetings of the City Council. Accordingly, the meetings of the Authority Board will be held at the same time and at the same location as the regular meetings of the City Council or such other place as the Authority Board may designate from time to time; provided that if there is no business of the Authority Board to transact at such meeting, the meeting will be cancelled.

The proposed resolution also confirms the appointment of Authority officials and adopts the Amended and Restated Bylaws (a copy of which is attached to the resolution) and updates the reference to the Conflict of Interest Code to clarify that that members of the Governing Board of the City of San José Financing Authority are subject to the provisions of the Conflict of Interest Code of the City, adopted by the City Council on March 24, 2009 by Resolution No. 74837, as may be amended.

Financing Team Participants

The financing team participants consist of:

City's Financial Advisor:	Public Resources Advisory Group
Bond Counsel:	Jones Hall
Letter of Credit Banks:	State Street Bank and Trust Company California State Teachers' Retirement System
Bank Counsel:	Fulbright & Jaworski
Trustee/Issuing and Paying Agent:	Wells Fargo Bank

EVALUATION AND FOLLOW-UP

This memorandum presents the set of recommendations related to the City Council and the Authority's approval of various actions related to the City of San José Financing Authority Lease Revenue Commercial Paper Program and amendments to the bylaws of the Authority and requires no follow-up to the City Council or the Authority Board. No additional evaluation or follow up is necessary.

PUBLIC OUTREACH/INTEREST

The form of the proposed amendment will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about April 9, 2010.

☒ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This report was prepared by the Finance Department in coordination with the Department of Housing and the City Attorney's Office.

COST SUMMARY/IMPLICATIONS

Compensation for the City's consultants (financial advisor, bond counsel and bank counsel) and other related costs will be paid from CP Note proceeds. There is no budgetary impact to the amortization of principal and repayment of interest and fees for the CP Program for FY 2009-10. The interest and fees incurred for the CP Program are capitalized and allocated on a pro-rata basis for each of the projects funded by the CP Program. The annual debt service schedule is calculated based on the specific repayment terms of each project as approved by City Council and the Authority Board.

The budget appropriation actions related to the loan to the Low-Mod Housing Fund are included in a separate Council Memorandum agendized for City Council approval on April 20, 2010.

CEQA

Not a project.

/s/
JULIA HARPER COOPER
Assistant Director of Finance

For questions, please contact Ann Andrews, Treasury Division Manager, Finance, at (408) 535-7041.

EXHIBIT D

2/23/2010

ORIGINAL

LOAN AGREEMENT BY AND AMONG THE CITY OF SAN JOSE, THE CITY OF SAN JOSE FINANCING AUTHORITY AND THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND

This Loan Agreement ("Agreement") is made and entered into this 23rd day of February, 2010, by and among the City of San Jose, a municipal corporation ("City"), the City of San Jose Financing Authority, a public body, corporate and politic, duly organized and existing under the laws of the State of California ("Authority"), and The Redevelopment Agency of the City of San Jose, a public body, corporate and politic ("Agency").

RECITALS

WHEREAS, the Agency is presently engaged in redevelopment activities in various redevelopment project areas; and

WHEREAS, the City and Agency entered into that certain Cooperation Agreement, dated September 28, 1990, pursuant to which the Agency delegated to the City the administration of the Low and Moderate Income Housing Fund ("Low-Mod Housing Fund"), into which 20% of gross tax increment collected by the Agency is deposited pursuant to the California Community Redevelopment Law ("CRL"); and

WHEREAS, on July 29, 2009, the Governor signed the State budget, including AB4x26 which requires redevelopment agencies in the State make payment to a Supplemental Educational Revenue Augmentation Fund ("SERAF"), and

WHEREAS, the Agency's SERAF obligation is $62,247,530 in FY 2009-2010 and approximately $12.8 million in FY 2010-2011; and

WHEREAS, AB26x4 and subsequent clarifying legislation, allows the Agency to make its SERAF payments with funds borrowed from the Low-Mod Housing Fund, as long as the Agency finds that there are insufficient other moneys to meet the SERAF payment requirement, and such borrowed funds are repaid within five years from date of borrowing; and

WHEREAS, on February 23, 2010, the Agency's Board made the finding that the Agency has insufficient moneys other than from the Low-Mod Housing Fund to make its SERAF payment in FY 2009-10; and

WHEREAS, AB26x4 also allows redevelopment agencies to make the SERAF payment with any other funds that are legally available and not legally obligated for other uses, including but not limited to proceeds of bonds or other indebtedness; and

WHEREAS, on February 23, 2010, the Agency Board and City Council found that due to insufficient other monies, the Agency would need to pay the SERAF, in part, with funds borrowed from the Low-Mod Housing Fund and approved a plan to finance the SERAF payments through a loan from the Low-Mod Housing Fund, and from the idle moneys of certain City special funds; and

WHEREAS, also on February 23, 2010, the City Council, the Board of Directors of the City of San Jose Financing Authority, and Agency Board authorized their City Manager, the Authority Executive Director, and Executive Director of the Agency to negotiate and execute this loan agreement, to provide funds to the Agency for the purpose of making the SERAF payments; and

WHEREAS, this loan constitutes indebtedness of the Agency under the California Redevelopment Law,

The City, Authority and Agency hereby agree:

A. **FINANCING AUTHORITY LOAN TO HOUSING FUND.**

1. Initial Loan Amount. Upon execution, and subject to the terms of this Agreement, the Authority agrees to make and the City agrees to accept a loan in the amount of $25,000,000.00 (the "Initial Loan Amount") to be paid in two installments as follows:

   a. First Installment in the amount of $12,000,000 by May 10, 2010;

   b. Second Installment in an amount not to exceed $13,000,000 by May 10, 2011.

2. Additional Loan Amounts. Throughout the term of this Agreement, the Authority will make additional funds available to the City as needed to replenish the Low-Mod Housing Fund for draws made to pay Associated Costs as defined in Paragraph A. 5 below. Such additional funds are estimated to be approximately $9,000,000 ("Additional Loan Amount"). The Initial Loan Amount, together with the Additional Loan Amounts, is referred to as the "Authority Loan".

3. Use of Loan Proceeds. The City shall deposit the Authority Loan proceeds into the Low-Mod Housing Fund, and shall use the proceeds only to fund low and moderate income housing activities, which include, but are not limited to, the development of affordable multi-family housing projects, loans for housing rehabilitation, teachers' housing loans and other eligible homebuyers' housing loans and eligible Low-Mod Housing Fund administrative costs. In the event that the SERAF payment is no longer required to be made by the Agency, due to either a change in

legislation or by a final order of a court of competent jurisdiction ("Change in Law"), then the Authority will not be obligated to make any installment of the Loan following the effective date of such Change in Law.

4. Sources of Loan Proceeds. The Authority shall issue City of San José Financing Authority's Lease Revenue Commercial Paper Notes in the amounts required to provide proceeds to make the installments set forth in paragraph 1.a and b. above.

5. Repayment Obligations.

a. The City shall repay the Authority, from the Low-Mod Housing Fund, the principal amount of the Authority Loan, which includes Associated Costs, consisting of the following:

i. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority Commercial Paper Issued pursuant to this Agreement.

ii. Interest at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes remain outstanding.

iii. Fees to the City for loan origination and annual compliance.

b. The City's obligation to repay the Authority Loan from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below.

B. SERAF LOANS TO AGENCY.

1. Loan Amount. Upon execution, and subject to the terms of this Agreement, the City agrees to make and the Agency agrees to accept two loans from the City in the combined amount of $75,000,000. The two loans are described in detail below as the Low Mod Loan and the InterFund Loan.

2. Timing of Loan.

a. The first installment of the SERAF Loans shall be delivered to the Agency in the amount of $62,000,000, in sufficient time for the Agency to make the first SERAF payment, on May 10, 2010.

b. The second installment of the SERAF Loans shall be delivered to the Agency in an amount not to exceed $13,000,000, in sufficient

time for the Agency to make the second SERAF payment, in the same amount, on May 10, 2011.

3. Use of Loan Proceeds. The Agency shall use the proceeds of the SERAF Loans only for the purpose of making SERAF payments as required by law. In the event that the payment is no longer required to be made by the Agency, due to either a change in legislation or by final order of a court of competent jurisdiction, then the City will not be obligated to make the Low-Mod Loan.

4. Sources of Loan Proceeds.

a. The Low-Mod Loan will be funded from the following funding sources:

i. Low and Moderate Income Housing Fund. The Low-Mod Housing Fund will be the source of $52,000,000 of the funding for the May 10, 2010 Installment, and up to $13,000,000 for the May 10, 2011 Installment. In order to assure that it has available funding to make this Loan, and to continue to provide an affordable housing program, the Low-Mod Housing Fund will need to borrow from the following sources:

(a) Housing Bond: Issuance of Redevelopment Agency of the City of San Jose Merged Area Redevelopment Project Taxable Subordinate Housing Set Aside Tax Allocation Variable Rate Bonds, Series 2010C (the "Housing TABs") of which $40,000,000 is allocated to the Low-Mod Fund.

(b) Authority Commercial Paper: Issuance of City of San José Financing Authority's Lease Revenue Commercial Paper Notes in an amount required to net a total of $25,000,000 is allocated to the Low Mod Fund.

b. The InterFund Loan: Idle moneys in the following special funds of the City will be the source of the $10 million Inter Fund Loan for the May 10, 2010 SERAF Installment:

i. Subdivision Park Trust Fund - $3 million;

ii. Sewage Treatment Plan Connection Fee Fund - $5 million; and

iii. Ice Centre Revenue Fund - $2 million.

5. Repayment Obligations- Low Mod Loan.

a. The Agency shall repay the City, from any unrestricted funds legally available to the Agency (e.g. proceeds from taxable bonds, but not tax exempt bonds), the principal amount of the Low-Mod Loan, plus Associated Costs, which consist of the following:

i. Costs associated with the Housing TABs related to this Loan ($40,000,000 in proceeds) for as long as the Housing TABs related to this Loan remain outstanding, including prorated issuance costs of $215,700, and ongoing bank fees and third party administrative costs prorated based on $40,215,700 (principal plus cost of issuance).

ii. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority's Commercial Paper Notes issued to fund the loan to the Low-Mod Fund, for as long as those Notes related to the Loan remain outstanding.

iii. Interest on the portion of the Loan allocated to the Housing TABs at the actual rate paid by the Low-Mod Fund on the Housing TABs for as long as the Housing TABs related to this Loan remain outstanding.

iv. Interest on the portion of the Loan allocated to the Authority Commercial Paper Notes at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes related to this Loan remain outstanding.

v. Interest revenues earned from funds on deposit with the City associated with this Loan shall be netted against the Associated Costs.

vi. The parties acknowledge that the Housing TABs and the Commercial Paper Notes have flexible maturities that are callable upon a relatively short notice period. Upon 30 days notice from the Agency that it intends to prepay any portion of the Low Mod Loan, City shall defease that amount of debt from either the Housing TABS or the Commercial Paper Program at the earliest call date, provided that the minimum amount to be defeased at any one time shall be $500,000.

Agency shall remain liable for all Associated Costs until the earliest date the City is able to effectuate the defeasance.

In the event that the Agency prepays a portion of the Low Mod Loan but the City chooses not to defease an equal amount of debt at the earliest call date, the Agency shall be relieved of the Associated Costs related to that portion of the debt that the City chose not to defease.

b. The Low Mod Loan must be repaid in full by the dates specified below:

i. $52,000,000 and Associated Costs due by June 30, 2015

ii. Actual principal amount not to exceed $13,000,000 and Associated Costs due by June 30, 2016

c. City shall invoice and Agency shall pay Associated Costs on a quarterly basis each August 1, November 1, February 1, and May 1, commencing August 1, 2010, provided that, to the extent such payments are not made by the Agency on a current basis, the amounts due and not paid shall be added to the principal balance owed.

d. The Loan is callable, in whole or in part, to the extent necessary at the discretion of the City Council, without penalty, under the following circumstances:

i. The Letter of Credit providing liquidity for the Authority Commercial Paper Notes is not renewed, or the Commercial Paper Notes are tendered back to the Authority, or any other circumstance that results in the immediate redemption of the Commercial Paper Notes;

ii. The credit facility providing liquidity for the Housing TABs is not renewed, or the TABs are tendered back to the Agency, or any other circumstance that results in the immediate redemption of the TABs.

6. Repayment Obligations- InterFund Loan.

a. The Agency shall repay the City, from any unrestricted funds legally available to the Agency (e.g., proceeds from taxable bonds, but not tax exempt bonds), the $10,000,000 principal amount of the InterFund Loan, plus Associated Costs.

b. For the purposes of the InterFund Loan, Associated Costs consist of Interest on the InterFund Loan calculated at the City Investment pool rate earned for each of the years the loan remains outstanding.

c. The InterFund Loan shall be due on or before June 30, 2015.

d. The InterFund Loan is callable, in whole or in part, to the extent necessary at the discretion of the City Council, without penalty, under the following circumstances:

i. The capital needs of the Subdivision Park Trust Fund, the Sewage Treatment Plant Connection Fee Fund, or the Ice Centre Revenue Fund require replenishment.

ii. Funds are required to refund developers from the Subdivision Park Trust Fund in the event that such refunds are required by state law.

7. Loan Fees. The Agency shall also pay fees to the City as follows:

a. A onetime loan origination fee in the amount of $375,000, which is 0.50% (1/2 of 1%) of the combined principal amount of $75,000,000, and is payable by May 10, 2010. The purpose of this fee is to reimburse the City for the resources utilized to develop, analyze and implement the SERAF Loan funding components;

b. An annual loan administration and monitoring fee of $187,500, which is 0.25% of the original principal amount of the Loan for each year the SERAF Loans remain outstanding.

8. Prepayment.

a. The Agency may prepay all or a portion of the SERAF Loans, without penalty, at any time. In the event of such prepayment, the provisions of Section B.5.a.vi. shall apply.

b. The Agency shall prepay a portion of the SERAF Loans if, at any time during the term of the Loans, the Agency issues new money San Jose Merged Area Tax Allocation Bonds in excess of $33 million. The amount of the SERAF Loan to be prepaid shall be determined by the City Council and Agency Board at the time of the issuance of such Bonds, based on the circumstances at the time.

9. Change in SERAF Obligation. In the event that the Agency no longer has the legal obligation to make or to have made the SERAF payment, as the result of a Change in Law, the following alternative actions shall be taken:

a. If such Change in Law occurs prior to May 10, 2010, and the City has not made the First Installment of the SERAF Loan, Agency shall within 30 days of receipt of an invoice from the City, repay the City Associated Costs incurred as of the date of the Change in Law.

b. If such Change in Law occurs prior to May 10, 2010, and the Agency has received the First Installment of the SERAF Loan, but has not yet made the SERAF payment, the Agency shall immediately relinquish the First Installment of the SERAF Loan to the City and shall within 30 days of receipt of invoice from the City, repay the City Associated Costs incurred as of the date of the Change in Law.

c. If such Change in Law occurs after the Agency has made one or both of the SERAF payments, the Agency shall repay to the City the principal amount of the SERAF Loan then outstanding, within 30 days from the date on which the Agency receives its refund of its SERAF payment(s). The Agency shall pay Associated Costs incurred as of the date of the Change in Law within 30 days of receipt of invoice from the City.

d. If an interim order by a court of competent jurisdiction stays the SERAF payment prior to May 10, 2010, the City shall hold the May 10, 2010 installment of the Low Mod Loan in escrow until such time as a final court order regarding the SERAF payment is issued. If the Commercial Paper Notes have not yet been issued, the City will delay the issuance of the Commercial Paper Notes until the parties agree as to the best course upon the issuance of a final Court order.

10. Consequence of Non Repayment. The parties acknowledge that Agency's failure to repay the principal amount of the Low-Mod Loan in full on the repayment dates set forth in Paragraph B.5.b. above, will trigger an increase in the percentage of housing set-aside tax increment as required by Sections 33690 and 33690.5 of the Redevelopment Law.

11. Priority of Repayment. The City will determine the allocation of the proceeds of repayment of the SERAF Loans based upon the circumstances at the time of repayment, with priority consideration given to repayment of the Low-Mod Loan within the statutory timeframes required by California Health and Safety Sections 33690 and 33690.5.

12. Agency Asset for Lease. The parties acknowledge that the Authority's Commercial Paper Program is secured by lease payments on various City-owned facilities. From time to time, the City may need to substitute such facilities with other assets. At City's request, Agency agrees to take all actions necessary to make available the California Theater as a substitute asset for the Authority's Commercial Paper Program.

C. MISCELLANEOUS.

1. Notice. All notices, requests and other communications provided for hereunder shall be in writing, delivered addressed as follows:

To the City: Scott Johnson, Director
City of San Jose
Department of Finance
200 E. Santa Clara Street, 13th Floor Tower
San Jose, CA 95113

Leslye Krutko, Director
City of San Jose
Housing Department
200 E. Santa Clara Street, 12th Floor Tower
San Jose, CA 95113

To the Agency: David Baum
Director of Finance
Redevelopment Agency of the City of San Jose
200 E. Santa Clara Street, 14th Floor Tower
San Jose, CA 95113

2. No Third Party Beneficiaries. No person or entity, other than the City, Authority and the Agency, shall have any right of action under this Loan Agreement.

3. Time. Time is of the essence in this Agreement.

4. Amendments. Amendments to this Agreement shall be effective only upon the mutual agreement in writing of the parties hereto.

5. Severability. If any provisions of this Agreement are held invalid, the remainder of this Agreement shall not be affected hereby, if such remainder would then continue to conform to the terms and requirements of applicable law.

6. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

7. Implementation.

a. City will provide the Agency annually as part of the Agency's budget development process estimated annual interest and associated costs. After the end of each fiscal year, the City will provide the Agency a reconciliation of budgeted interest and associated costs to actual interest and associated costs.

b. Attachment A-1 sets forth a Proforma SERAF Loan Repayment Schedule. Attachment A-2 set forth a Proforma Schedule of Fees and Interest on the SERAF Loans. These Proformas are for illustration purposes only subject to change depending on timing of actual repayment amounts from the Agency and actual interest and fees accrued over the term of the loan.

Executed by the City, Authority and Agency on the day and year first above written.

CITY OF SAN JOSE

Approved to form:

Chief Deputy City Attorney

Debra Figone
City Manager

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Approved to form:

Chief Deputy General Counsel

Harry S. Mavrogenes
Executive Director

THE CITY OF SAN JOSE FINANCING AUTHORITY

Debra Figone
Executive Director

SERAF SCHEDULE OF FEES AND INTEREST (PROFORMA)[1]

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Taxable Interest Rate[2]	2.55%	2.90%	5.05%	5.05%	5.05%	5.05%	5.05%

Loan Origination Fee[3]: $375,000 (one time fee)
Annual Loan Monitoring Fee[3]: $187,500 (annual fee)

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Total
Loan Origination Fee	375,000	0	0	0	0	0	0	375,000
Loan Monitoring Fee	31,250	187,500	187,500	187,500	187,500	187,500	187,500	1,156,250
TABs Interest[4]	172,000	1,166,000	2,031,000	2,031,000	2,031,000	2,031,000	0	9,462,000
CP Banking Fees[5]	136,000	544,000	544,000	544,000	544,000	544,000	544,000	3,400,000
CP Interest[6]	20,000	359,000	1,061,000	1,193,000	1,260,000	1,233,000	0	5,126,000
Total Interest & Fees (rounded)	734,250	2,256,500	3,823,500	3,955,500	4,022,500	3,995,500	731,500	19,519,250

Notes:

1. The interest rates and fees included in this proforma are for illustration purpose. The actual interest and fees may vary depending on financial market factors that affect interest rates, liquidity, competition, demand, and other global macro and micro economic factors, in addition to the City's financial management policies and budgeting practices.

2. Taxable Interest rate assumption per the 2010-15 General Fund Debt Service Projection. This is a projection of the all in interest rate which includes all third party fees associated with the credit facility. The interest rate assumptions are subject to periodic adjustment by the City's Finance Department to reflect the then current market conditions through the City's Budget process.

3. The one-time loan origination fee is equal to 0.50% of the $75 million principal.
The annual loan monitoring fee is equal to 0.25% of the $75 million principal.

4. Estimated TABs Interest allocation based on $40,215,700 gross proceeds for SERAF Loan ($40M par + $215.7K cost of issuance) out of total proceeds of $93M for HSA TABs Series 2010C (43.24%).

5. CP Banking Fees estimate is based on 1.60% for $34 million capacity utilization. Subject to change based on third party agreements with the City.

6. CP Interest estimate is equal to the all in taxable interest rate less 1.60% estimated banking fee noted above (note 5). For example, for FY 2010-11, the estimated CP Interest rate is 1.30%, which is equal to the 2.90% estimated all in interest rate less 1.60% for the estimated banking fees.

SERAF LOAN REPAYMENT PROFORMA[1]

Source of Repayment: The Redevelopment Agency's repayment to the City shall be from any legally available unrestricted funds on deposit with the Agency.

Initial Principal[2]: $75,000,000 ($10M Inter-Fund Loan + $65M Housing Fund Loan)

Agency Repayment Obligations

SERAF Loans	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Total
Beginning Balance	0	62,768,250	78,150,750	82,137,250	84,358,750	80,649,450	12,064,850	0
Principal								
Housing Loan[3]	52,000,000	13,000,000	0	0	0	0	0	65,000,000
Inter-Fund Loan	10,000,000	0	0	0	0	0	0	10,000,000
Interest & Fees[4]								
Housing Loan	734,250	2,256,500	3,823,500	3,955,500	4,022,500	3,995,500	731,500	19,519,250
Inter-Fund Loan	34,000	126,000	163,000	266,000	380,000	308,000	321,000	1,598,000
Repayments[5]	0	0	0	(2,000,000)	(8,111,800)	(72,888,100)	(13,117,350)	(96,117,250)
Ending Balance	62,768,250	78,150,750	82,137,250	84,358,750	80,649,450	12,064,850	0	0

Notes:

1. The SERAF Loan Repayment Proforma is provided for illustration purpose, subject to change depending on timing of actual repayment amounts from the Agency and actual interest and fees accrued over the term of the loan.

2. Initial principal loan amount is expected to increase by the accrued interest and fees.

3. Housing Fund Loan Principal due in two installments: $52 million due on or prior to June 30, 2015 and $13 million due on or prior to June 30, 2016. Failure to meet these dates will trigger an increase in the percentage of housing set-aside tax increment as required by Sections 33690 and 33690.5 of the Redevelopment Law.

4. Estimated annual SERAF Loan Interest & Fees. Actual interest and fees to be accrued annually based on actual rates (see Attachment A-2).

5. Projected Repayments per Agency 2009-10 Budget & 2010-15 CIP approved by Agency Board on February 23, 2010.

FIRST AMENDMENT TO LOAN AGREEMENT BY AND AMONG THE CITY OF SAN JOSE, THE CITY OF SAN JOSE FINANCING AUTHORITY AND THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND

This First Amendment to Loan Agreement ("First Amendment") is made and entered into this 10th day of May, 2011, by and among the City of San Jose, a municipal corporation ("City"), the City of San Jose Financing Authority, a public body, corporate and politic, duly organized and existing under the laws of the State of California ("Authority"), and The Redevelopment Agency of the City of San Jose, a public body, corporate and politic ("Agency").

RECITALS

WHEREAS, the Agency is presently engaged in redevelopment activities in various redevelopment project areas; and

WHEREAS, on July 29, 2009, the Governor signed the State budget, including AB4x26 which requires redevelopment agencies in the State make payment to a Supplemental Educational Revenue Augmentation Fund ("SERAF"), and

WHEREAS, the Agency's SERAF obligation is $62,247,530 in FY 2009-2010 and approximately $12,815,668 in FY 2010-2011; and

WHEREAS, AB26x4 and subsequent clarifying legislation, allows the Agency to make its SERAF payments with funds borrowed from the Low-Mod Housing Fund, as long as the Agency finds that there are insufficient other moneys to meet the SERAF payment requirement, and such borrowed funds are repaid within five years from date of borrowing; and

WHEREAS, on February 23, 2010, the Agency Board and City Council found that due to insufficient other monies, the Agency would need to pay the SERAF, in part, with funds borrowed from the Low-Mod Housing Fund and approved a plan to finance the SERAF payments through a loan from the Low-Mod Housing Fund, and from the idle moneys of certain City special funds; and

WHEREAS, also on February 23, 2010, the City Council, the Board of Directors of the City of San Jose Financing Authority, and Agency Board authorized the City Manager, the Authority Executive Director, and Executive Director of the Agency to negotiate and execute a loan agreement, to provide funds to the Agency for the purpose of making the SERAF payments; and

WHEREAS, on May 6, 2010 the City, Authority and Agency entered into the Loan Agreement which anticipated that the Authority would issue commercial paper prior to the due date for each of the SERAF payments (May 10, 2010, and May 10, 2011) to loan to the Low - Mod Housing Fund, to replace funds loaned by the Low-Mod Fund to the Agency to make the SERAF payment.

WHEREAS, in order to reduce borrowing costs, City and Agency staff have recommended that since the Low-Mod Housing Fund currently has sufficient funds on hand to loan to the Agency, those funds should be loaned to the Agency to make the payment, and delaying the issuance of commercial paper until funding is needed for future Low-Mod Housing projects.

NOW THEREFORE, the City, Authority and Agency hereby agree to amend the Loan Agreement as follows:

SECTION 1. Section A of the Loan Agreement, entitled "Financing Authority Loan to Housing Fund" is hereby amended to read in full as follows:

A. **FINANCING AUTHORITY LOAN TO HOUSING FUND.**

1. Initial Loan Amount. Upon execution, and subject to the terms of this Agreement, the Authority agrees to make and the City agrees to accept a loan in the amount of $25,000,000.00 (the "Initial Loan Amount") to be paid in two installments as follows:

   a. First Installment in the amount of $12,000,000 by May 10, 2010.

   b. Second Installment in an amount not to exceed $13,000,000 by May 10, 2011.

2. Additional Loan Amounts. Throughout the term of this Agreement, the Authority will make additional funds available to the City as needed to replenish the Low-Mod Housing Fund for draws made to pay Associated Costs as defined in Paragraph A. 5 below. Such additional funds are estimated to be approximately $9,000,000 ("Additional Loan Amount"). The Initial Loan Amount, together with the Additional Loan Amounts, is referred to as the "Authority Loan".

3. Use of Loan Proceeds. The City shall deposit the Authority Loan proceeds into the Low-Mod Housing Fund, and shall use the proceeds only to fund low and moderate income housing activities, which include, but are not limited to, the development of affordable multi-family housing projects, loans for housing rehabilitation, teachers' housing loans and other eligible homebuyers' housing loans and eligible Low-Mod Housing

Fund administrative costs. In the event that the SERAF payment is no longer required to be made by the Agency, due to either a change in legislation or by a final order of a court of competent jurisdiction ("Change in Law"), then the Authority will not be obligated to make any installment of the Loan following the effective date of such Change in Law.

4. Sources of Loan Proceeds. The Authority shall issue City of San José Financing Authority's Lease Revenue Commercial Paper Notes in the amounts required to provide proceeds to make the installments set forth in paragraph 1.a and b. above.

5. Repayment Obligations.

a. The City shall repay the Authority, from the Low-Mod Housing Fund, the principal amount of the Authority Loan, which includes Associated Costs, consisting of the following:

i. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority Commercial Paper issued pursuant to this Agreement.

ii. Interest at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes remain outstanding.

iii. Fees to the City for loan origination and annual compliance.

b. The City's obligation to repay the Authority Loan from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below.

6. City Discretion to Borrow from Authority. Notwithstanding the above, in the event that the City, in its discretion, determines that it has sufficient Low-Mod Housing Funds to loan to the Agency without borrowing commercial paper proceeds from the Authority, the Authority may delay the issuance of commercial paper until the City determines that funding is needed for future Low-Mod Housing projects.

Executed by the City, Authority and Agency on the day and year first above written.

CITY OF SAN JOSE

Approved to form:

Chief Deputy City Attorney

Debra Figone
City Manager

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Approved to form:

Chief Deputy General Counsel

Harry S. Mavrogenes
Executive Director

THE CITY OF SAN JOSE FINANCING AUTHORITY

Debra Figone
Executive Director

EXHIBIT E

Exhibit G - Deferrals

City of San José
Inventory of Assets Received Pursuant to Health and Safety Code section 34176 (a) (2)

Item #	Purpose for which funds were deferred	Fiscal year in which funds were deferred	Amount deferred	Interest rate at which funds were to be repaid	Current amount owed	Date upon which funds were to be repaid
1	Supplemental Education Revenue Augmentation Fund Loan between the City of San José and the Redevelopment Agency of the City of San José - Loan 1 H&S Code Section 33690(c)(1)	2/23/2010	Principal Amount: $52,000,000 of Low Mod Funds	$40,000,000 is variable at 2.60% - LIBOR $12,000,000 is variable at an estimated rate of 2.60%	6/30/2012 Outstanding balance: $56,067,206	6/30/2015
2	Supplemental Education Revenue Augmentation Fund Loan between the City of San José and the Redevelopment Agency of the City of San José - Loan 2 H&S Code Section 33690.5(c)(2)	5/10/2011	Principal Amount: $12,815,668 of Low Mod Funds	City pool investment rate	6/30/2012 Outstanding balance: $12,857,655	6/30/2016

Source:
City Housing Asset
List.
Prepared 8/1/2012

ATTACHMENT A

EXHIBIT F

City of San José
Recognized Obligation Payment Schedule (ROPS)
SERAF Loan: Low-Mod Income Fund Loan to Redevelopment Agency
4/27/2012

(G) Amounts Borrowed from 20%:

	Low-Moderate Income Fund		
Loan Funding/Costs	*Loan 1*	*Loan 2*	Reference
Loan Principal			
CP Issuance	12,000,000		SERAF Payment No. 1 of 2 in May 2010 was $62,247,530. Low-Mod Fund loaned $52M to Agency to help make the payment.
TABs Issuance	40,000,000		
Cash-on-hand		12,815,668	SERAF Payment No. 2 of 2 in May 2010 was $12,815,668. Low-Mod Fund cash-on-hand provided all funds to Agency make the payment.
Costs to Date			
CP Interest/fees	1,319,502 (1)		Actual interest and fees related to CP issued.[a]
TABs interest/fees	1,645,223 (2)		Actual interest and fees related to TABs issued.[a]
Loan Monitoring Fee	354,837		SERAF Loan Monitoring Fee per Loan Agreement[a]
Interest		34,592	Actual City Portfolio's net investment return rates, applied to principal.[a]
Costs remaining for FY 2012			
CP interest	18,218 (1)		Actual interest (3/15/12 to 6/14/12)
TABs interest	192,550 (2)		Actual 5/1/12 Coupon payment
Loan Monitoring Fee	46,875		SERAF Loan Monitoring Fee per Loan Agreement (billed Quarterly)
Interest		8,757	Assumes March-12 actual monthly interest
Costs Projected for FY 2013-2022			
CP interest/fees	9,406,674 (1)		Projected interest and fees related to CP issued.
TABs interest/fees	17,584,129 (2)		Projected interest and fees related to TABs issued.
Loan Monitoring Fee	1,875,000		SERAF Loan Monitoring Fee per Loan Agreement
Interest	-	3,044,158	"Portfolio Interest Earnings Projections 2011-2017" memo, dated 10/21/11, from Julia H. Cooper to Jennifer Maguire
Total	84,443,007	15,903,175	

Notes
(a) Interest and fees are tracked on a SharePoint website:
http://inside.sjcity.net/finance/debtManagement/SERAF_Loan/default.aspx

CP = CSJFA Lease Revenue Commercial Paper (variable rate debt)
TABs = RDA Housing Set-Aside Tax Allocation Bonds, Series 2010C (variable rate debt)
SERAF = Supplemental Educational Revenue Augmentation Fund

Totals:
(1) C.P. Interest Fees $ 10,744,394
(2) TABs interest/Fees $ 19,921,902
(3) Loan Monitoring Fees 2,276,717

ATTACHMENT A

EXHIBIT G

COUNCIL/AUTHORITY AGENDA: 02-23-10
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL, CITY OF SAN JOSE FINANCING AUTHORITY BOARD, AND REDEVELOPMENT AGENCY BOARD

FROM: Debra Figone
Harry S. Mavrogenes

SUBJECT: SEE BELOW

DATE: February 12, 2010

COUNCIL DISTRICT: Citywide

SUBJECT: FINANCING PLAN TO FUND THE AGENCY'S PAYMENT TO THE SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND ("SERAF")

RECOMMENDATION

It is recommended that the City Council, City of San José Financing Authority (the "Authority") and the Redevelopment Agency (the "Agency") Board adopt resolutions authorizing the City Manager, the Authority Executive Director, and the Agency Executive Director to negotiate and execute a Loan Agreement to provide funds to the Agency in the total amount of $75 million, from various funding sources, for the purpose of making the FY 2009-10 and 2010-11 State mandated payments to the Supplemental Educational Revenue Augmentation Fund, pursuant to the terms and conditions outlined in this memorandum.

OUTCOME

Approval of the recommendation will authorize the implementation of the proposed financing plan for the Agency to meet the State mandated payments to the Supplemental Educational Revenue Augmentation Fund ("SERAF") in 2010 and 2011.

EXECUTIVE SUMMARY

Proposed SERAF Financing Plan

The proposed SERAF financing plan was developed in consideration of Council actions taken on December 15, 2009 as outlined in the Background section of this report. The SERAF financing plan will be implemented as follows:

- Sources of funding:
  - FY 2009-10: $62 million total payment to be funded as follows: (1) $10 million will be loaned to the Agency from the City through Inter-Fund loans and (2) $52 million will be a loan from the City's Low and Moderate Income Housing Fund (the "Low-Mod Housing Fund") fund balance of which $40 million will be generated through the issuance of Housing Set-Aside Tax Allocation Bonds ("Housing Bonds") and $12 million will be generated through the City of San José Financing Authority's issuance of Commercial Paper ("CP") Notes.
  - FY 2010-11: $13 million total payment, funded by the Low-Mod Housing Fund fund balance to be generated through the City of San José Financing Authority's issuance of CP Notes.
- The funds from the Housing Bonds and the CP Program will be used to finance or refinance various affordable housing loans, programs and administration costs. These proceeds will free up funds in the Low-Mod Housing Fund previously allocated to those affordable housing projects. The funds from the Inter-Fund loans will be loaned from the City directly to the Agency.

The City will loan a total of $75 million to the Agency to enable the Agency to make the SERAF payments as required by the State (the "SERAF Loan").

Terms, Conditions, Timing of Funding, and Repayment Provisions

The SERAF Loan is subject to the terms and conditions described in this report and as set forth in Attachment 1.

Payment Dates. The SERAF Loan funds will be disbursed to the Agency in two installments, in sufficient time for the Agency to make the required payments on the following dates:

- $62 million on May 10, 2010
- $13 million on May 10, 2011

Repayment Provisions. The Agency's repayment to the City shall be from any legally available unrestricted funds. The SERAF Loan shall be repaid in accordance with the terms and conditions set forth in Attachment 1 (in particular, the *Maturity and Pre-Payment* sections), but no later than June 30, 2015 for the first installment of $62 million plus associated interest, fees and other carrying costs, and June 30, 2016 for the second installment of $13 million plus associated interest, fees and other carrying costs.

Priority of Repayment. The priority of repayment for the SERAF Loan will be made when Agency funds are available based on the circumstances at the time, with priority consideration for repayment to the Low-Mod Housing Fund.

Interest and Fees. Consistent with the Guiding Principles outlined later in this report, interest on the SERAF Loan, including associated fees, will be due quarterly on each August 1, November 1, February 1 and May 1, commencing August 1, 2010. To the extent that interest and ongoing fees cannot be paid currently, they will be added to principal balance owed, with interest due on the increased amount.

Call Provisions. The SERAF Loan will be callable, to the extent necessary, without penalty, to the extent that funding sources for the SERAF Loan need to be repaid. For example, if the banks that credit enhance the CP Program do not renew their letters of credit ("LOCs"), and/or one of the City's contributing funds of the Inter-Fund Loan needs to be replenished and/or the LOC securing the Housing Bonds cannot be renewed, the City may need to accelerate the repayment from the Agency of the corresponding portion of the SERAF Loan.

Security. The Agency owned California Theatre, which has an estimated value at least equal to $25 million will be used to provide collateral for the City of San José Financing Authority CP Program.

If the Agency fails to repay the Housing Fund Loan in full on the payment dates, the percentage of housing set-aside tax increment will increase as required by Sections 33690 and 33690.5 of the Redevelopment Law. Therefore, if this were to occur, the Low-Mod Housing Fund would be obligated to repay the CP Notes from this additional revenue source.

BACKGROUND

Supplemental Educational Revenue Augmentation Fund

On July 28, 2009 Governor Schwarzenegger signed a package of 26 bills, as amended, to close the $23.24 billion budget shortfall in the 2009-2010 State Budget. The budget package required redevelopment agencies across the state to make payments totaling $1.7 billion in FY 2009-10 and $350 million in FY 2010-11 to K-12 school districts serving students living in or near their redevelopment areas. Redevelopment agencies must deposit these payments into a new county Supplemental Educational Revenue Augmentation Fund for allocation to the designated school districts. For the Agency, the impact is estimated at $62 million in FY 2009-2010 and an additional $13 million in FY 2010-2011. If the Agency does not make the SERAF payments, the Agency faces a "death penalty" which essentially requires the Agency to suspend all operations other than existing obligations. This includes ending all funding to the City for future affordable housing projects.

The courts have previously determined that a similar "taking" by the state of $350 million in redevelopment funds statewide proposed in 2008-2009 was unconstitutional. In response to this year's unconstitutional taking of redevelopment funds, the California Redevelopment Association ("CRA") has filed another lawsuit to challenge the State's budget action this year. On February 5, the case was heard by Judge Lloyd Connelly of the Sacramento Superior Court. The judge rendered no decision and asked for additional briefing from both sides. All briefs and responses are due to the Court by March 2. The judge is then expected to take the case under submission and has 90 days to rule. The CRA has asked for a court ruling before May 2010, the date redevelopment agencies must make their FY 2009-2010 payment. While there is no way to predict how long a court proceeding will take, given the magnitude of the raid and the impact it will have on redevelopment agencies, a ruling by early 2010 is hopeful, however the State will likely appeal this ruling and a final decision may take two years. To avoid the "death penalty", the Agency is required to deposit the SERAF funds by the specified dates.

Tax Increment Revenues

Redevelopment agencies in California receive an annual funding stream known as tax increment revenues. Tax increment revenues are based on the growth in assessed value in a redevelopment project area since its establishment. Under Redevelopment Law, 20% of all tax increment revenues must be used for affordable housing. This increment is known as the "20% housing set-aside." The remaining 80% of the tax increment revenues, subject to certain other funding requirements, may be used for general redevelopment purposes in the redevelopment project area. Redevelopment agencies may issue "tax allocation" bonds that are secured either by the 20% housing set-aside tax increment revenues or the 80% portion of tax increment revenues.

City of San José Redevelopment Agency Overview

Since its formation in 1956, the Agency has successfully leveraged tax increment revenues to pursue a comprehensive program to revitalize Downtown, industrial areas, neighborhoods and business districts. The Agency is active in 21 Project Areas comprising 16% of the City's land mass and nearly 40% of total jobs.

The returns on Agency investments have been impressive and the Agency has made a significant difference in the lives of San José residents and businesses. The $2.5 billion that the Agency has invested in its core services is estimated to have generated approximately $19 billion in private investment.

SERAF Payment Options

The economic downturn that began in 2007 has negatively impacted the Agency's budget. With the Agency's finances hampered by the severe economic crisis and pre-existing obligations and the State's SERAF take to temporarily fix the State's budget deficit, the Agency has limited options to fund the SERAF payments. To assist the City and the Agency with formulating a viable financing plan, a financing team was formed with representatives from the Department of Finance, Housing, City Manager's Office, Budget Office, City Attorney's Office, the Agency, Bond Counsel, and Financial Advisors (the "SERAF Financing Team"). The SERAF Financing Team evaluated several options and formulated the proposed financing plan outlined in this report. The proposed financing plan allows the Agency to make the SERAF payments on the required payment dates and achieves the goals of the Guiding Principles outlined below, including: maintaining the fiscal health of the City and the Agency, minimizing the risks to the General Fund and Housing Fund, maximizing flexibility, ensuring lowest cost of funds available, and minimizing impact to the City's Housing programs (see Analysis – Guiding Principles).

The proposed SERAF financing plan was also developed in consideration of Council/Agency Board actions taken on December 15, 2009 with regard to the direction for the Agency's SERAF obligations:

- Staff to inform the State at the required deadline that the Agency will pay the required $62 million in Year 1 and $13 million in Year 2
  As required by law and dependent on action taken by the Council today, the Agency Staff will notify the Santa Clara County Auditor by March 1 how it intends to fund the SERAF payment.

- Initially require a loan from the 20% Housing Funds of no more than $40 million in Year one to help pay for the Agency's obligations to the State
  The recommended financing plan as described in this report includes $40 million from the Low-Mod Housing Fund.

- Accept the Mayor's proposal for the use of $10 million in other funds to pay the State, *The recommended financing plan as described in this report includes $10 million from the Inter-Fund Loan per the Mayor's proposal (see Attachment 2).*

- and direct staff to evaluate other sources of funds for the remainder of the obligation to the State ($12 million in Year 1 and $13 million in Year 2), including the following in order of priority:

1. Savings from additional project cuts in the Redevelopment budget;
   As more fully described in the Agency's revised budget proposal which is being considered by the Council and Agency Board on this same date, the Agency has made significant cuts in operating and capital budgets, has liquidated surplus funds in existing contracts and has used best efforts to renegotiate committed/encumbered funds. Those efforts are ongoing. The Agency is facing continuing uncertainties as to demands on its available unrestricted cash. It is unclear whether Agency will be able to sell bonds to obtain $30 million as anticipated in FY 2009-10. Negotiations with the County are ongoing and it is unclear what effect the conclusion of those negotiations may have on available unrestricted Agency funds.

2. City of San José Financing Authority issuance of Commercial Paper with full reimbursement of costs by the Agency;
   The recommended financing plan as described in this report includes $25 million in CP Notes. It should be noted that this option may be expanded if any of the proposed financing plan components are not available (subject to LOC provider's approval).

3. Additional borrowing from two of the funds identified by the Mayor ($14.9 million from Fund 539 – Sewage Treatment Plant Connection Fee Fund and $3.1 million from Fund 432 – Ice Centre Revenue Fund); and
   Additional borrowings from other City Funds is not recommended at this time (see Attachment 4), however, this option may be revisited if any of the proposed financing plan components are not available.

4. Temporary loans (interest paid by Agency) from:
   - Fund 423 – Integrated Waste Management Fund
   - Fund 541 – Sewer Service and Use Charge Fund
   - Fund 446 – Storm Service Operating Fund
   - Fund 418 – Library Parcel Tax Fund
   - Fund 426 – Anti-Tobacco Master Settlement Agreement Revenue Fund

Additional borrowings from other City Funds is not recommended at this time (see Attachment 4), however, this option may be revisited if any of the proposed financing plan components are not available.

ANALYSIS

Financing Proposal for Agency's SERAF Payments

Guiding Principles

In order to structure the SERAF payments, City and Agency staff established "Guiding Principles" to help facilitate the development of the proposed financing structure and terms. The Guiding Principles consist of:

- Maintain Fiscal Health (City and Agency)
  - Goal to maintain City and Housing ratings
  - Conforms to fiscal management best practices
  - Agency to continue as a viable economic development engine for the City
- Minimize risks to the General Fund and Housing Fund
  - General Fund and Housing Fund made whole
  - Follow City Council's Inter-Fund Loan Policy
  - City and Agency staff to develop loan terms collaboratively (repayment period, interest rate, etc.)
- Maximize flexibility
  - Allows Council/Agency Board discretion
  - Terms can be flexible based on changes in economic conditions
  - Allows the Agency to retire SERAF debt without prepayment penalties
- Ensure lowest cost of funds available
- Minimize Impact to Housing Programs
  - Continue to fund the Housing Department homebuyer, mobilehome, and rehabilitation programs at traditional levels
  - Fund construction for the Markham Terrace project
  - Complete refinancing of current debt that must be addressed by June 2010

Financing Proposal

The proposed SERAF financing plan was developed in consideration of Council actions taken on December 15, 2009 (see Background section). Staff proposes to fund the Agency's SERAF payments through a loan to the Agency from the following sources:

1. $10 million from the following City special funds: the Subdivision Park Trust Fund ($3 million), the Sewage Treatment Plant Connection Fee Fund ($5 million), and the Ice Centre Fund ($2 million) (the "Inter-Fund Loan"); and

2. The Low-Mod Housing Fund in an amount sufficient to fund the remaining $65 million in SERAF payments plus the associated issuance and carrying costs of debt issued to create flexibility in the Housing Funds so as to make the loan (the "Housing Fund Loan").

The Housing Fund Loan will be funded by amounts on deposit in the Low-Mod Housing Fund at the time the SERAF payments are due.

- $40 million attributable to the issuance of Merged Area Redevelopment Project Taxable Housing Set-Aside Variable Rate Demand Bonds, Series 2010C and Series 2010D (the "2010C and 2010D Bonds") to finance and refinance loans in connection with certain affordable housing projects. These Bonds will free up funds previously allocated to those affordable housing projects to be loaned to the Agency.

- A loan from the City of San José Financing Authority to the Low-Mod Housing Fund in an amount that will net the Fund $25 million. This loan will enable the Low-Mod Housing Fund to continue to support $25 million in various existing affordable housing projects and programs over the next two years. This will free up $25 million in the Low-Mod Housing Fund that otherwise would be used for such programs to be loaned to the Agency to meet its SERAF payments. The source of this loan to the Low-Mod Housing Fund is the issuance of the Authority Commercial Paper Notes in an amount sufficient to fund $25 million of affordable housing programs and the projected capitalized interest and fees associated with the CP over the term of the loan.

The Inter-Fund Loan and the Housing Fund Loan (together, the "SERAF Loan") are subject to the terms and conditions described in this report and as set forth in Attachment 1. The SERAF Loan funds will be disbursed to the Agency in two installments, in sufficient time for the Agency to make the required payments of $62 million on May 10, 2010 and $13 million on May 10, 2011. The first installment will be funded by the Inter-Fund Loan ($10 million) and the Housing Fund Loan ($52 million total, of which $40 million is attributable to the 2010C and 2010D Bonds and $12 million is attributable to CP Notes). The second installment will be funded by the Housing Fund Loan ($13 million attributable to CP Notes).

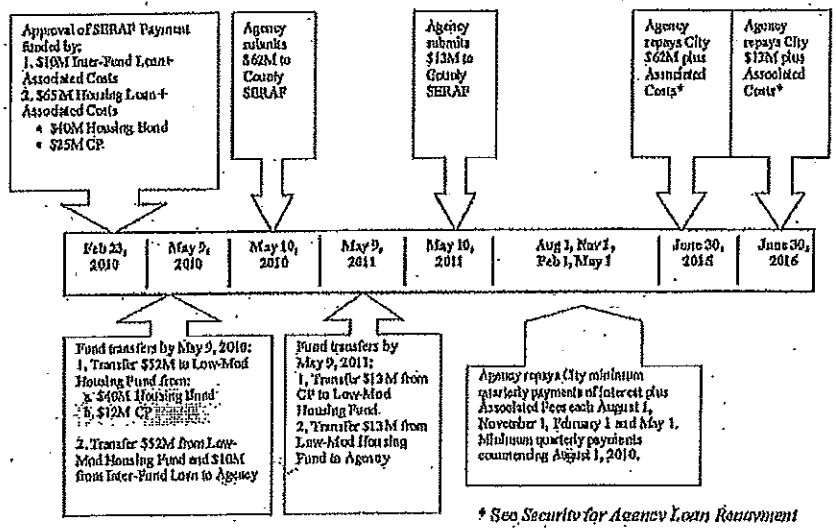
Provisions in the Event that the CRA Lawsuit Prevails

As discussed earlier in the Background section of this report, the California Redevelopment Association has filed a lawsuit to challenge the State's budget action this year with regards to the SERAF payments. Should the CRA lawsuit prevail, at the time the lawsuit prevails (final judgment):

i) and the Agency has deposited the SERAF funds with the County, the Agency shall immediately repay to the City all outstanding SERAF Loan amounts, including any Associated Costs incurred to-date. This transaction must be completed within 30 days from the date the Agency's SERAF deposits are received by the Agency;
ii) and the SERAF funds are not yet loaned to the Agency and are held by the City and/or CP Notes have not yet been issued for purposes of this Loan, this SERAF Loan and related provisions will be null and void, and the Housing Department shall be entitled to use its $40 million of Low-Mod housing funds for its projects and programs; however, the Agency will be responsible for paying any Associated Costs accrued to-date within 30 days of the final judgment;
iii) and the SERAF funds are loaned to the Agency, the Agency shall relinquish such funds to the City for repayment of the SERAF Loan and pay any Associated Costs accrued to-date within 30 days of the final judgment.

The financing proposal and repayment timeline for the SERAF Loan is summarized in the chart below.

SERAF Financing Plan Timeline



Repayment Amount

Principal. $75 million total principal from the following sources: the Subdivision Park Trust Fund ($3 million), the Sewage Treatment Plant Connection Fee Fund ($5 million), the Ice Centre Revenue Fund ($2 million), and the Low-Mod Housing Fund ($65 million).

Associated Costs. The Agency's obligation to repay the SERAF Loan will include all costs borne by the City, including the Low-Mod Housing Fund, associated with the funding sources described as follows.

- Inter-Fund Loan – Repayment of the Inter-Fund Loan shall include interest accruing at a rate that is equal to the City's Investment Pool rate.
- Housing Bonds – Repayment of the Housing Bonds shall include third party costs of issuing bonds, interest on the bonds, letter of credit fees, ongoing third party administrative costs and related costs that are not funded with such Bonds.
    - Issuance costs are estimated at 1.25% to 1.50%.
    - Annual interest costs are estimated at 0.50%, based on current rates.
    - Annual letter of credit fees and other administrative costs are estimated at 1.70%, based on current rates. Fees and interest cost may increase if it is necessary to refinance the Bonds due to a decision by the LOC provider not to renew its LOC on the expiration date in April 2013.
- CP Notes – Repayment of the CP Notes shall include third party costs of issuance, interest, letter of credit and related banking fees and ongoing third party administrative costs and other related costs for the CP Program.
- Interest revenues earned from funds on deposit with the City associated with the SERAF Loan shall be netted against the Associated Costs.

City Administrative Costs. Consistent with Council's prior budget actions and the Council Policy for issuing housing revenue bonds, the SERAF Loan to the Agency is subject to the following loan fees:

- A onetime loan origination fee estimated at $375,000 based on a total SERAF loan value of $75 million. This loan origination fee of 0.50% (1/2 of 1%) is applied to the principal amount and is payable by May 1, 2010 (coinciding with the timing for the deposit to SERAF) to reimburse the City for the resources utilized to develop, analyze and implement the SERAF Loan funding components;
- An annual loan administration and monitoring fee estimated at $187,500 per year based on a loan value of $75 million. This annual loan administration and monitoring fee of 0.25% is applied to the original principal amount (not based on the declining par amount of the loan) for each year the SERAF Loan remains outstanding.

The loan fees described above are levied to compensate the City for the administration of the SERAF Loan which includes, but not limited to, the following activities: ongoing monitoring and reporting to third party stakeholders, annual review and adjustment of the repayment schedule, annual review, administration and enforcement of Agency compliance to the terms and conditions of the loan, and the ongoing management of the various funding sources of the SERAF Loan to balance the financing needs of these sources against the SERAF Loan.

Based on current market rates, the total estimated all-in Associated Costs noted above for FY 2010-11 is between 4 to 5 %, which consists of interest cost (~1-2%), banking fees (~1-2%) and the City's loan fees (~0.25%). These costs are reasonable and low compared to the true interest cost estimate of approximately 8.50% the Agency received in late 2008 for taxable bonds[1] or the costs that may be associated with a new financing debt issue of the Agency. The actual Associated Costs may vary depending on financial market factors that affect interest rates, liquidity, competition, demand, and other global macro and micro economic factors, in addition to the City's financial management policies and budgeting practices.

It should be noted that the estimated all-in Associated Costs meet the Guiding Principle of ensuring the lowest cost of funds available for the SERAF loan. The City's Financing Team was able to achieve this goal in developing the financing structure through the excellent credit ratings the City and Housing Department has that translate to lower costs of borrowing. The funds proposed to be borrowed by both the City and the Housing Department to provide funding for the SERAF loan are the lowest cost borrowing mechanisms available for the City and the housing program.

Source of Loan Repayments and Repayment Dates. Repayment to the City shall be from any legally available unrestricted funds. The SERAF Loan shall be repaid in accordance with the terms and conditions described in this report (in particular, the *Maturity and Pre-Payment* sections), but no later than June 30, 2015 for the first installment of $62 million plus associated interest, fees and other carrying costs, and June 30, 2016 for the second installment of $13 million plus associated interest, fees and other carrying costs.

Consistent with the Guiding Principles outlined in this report, interest on the SERAF Loan including fees (such as for letters of credit) will be due quarterly on each August 1, November 1, February 1 and May 1, commencing August 1, 2010. To the extent that interest and ongoing fees cannot be paid currently, they will be added to principal balance owed, with interest due on the increased amount.

Priority of Repayment. The priority of repayment for the SERAF Loan will be made when Agency funds are available based on the circumstances at the time, with priority consideration for repayment to the Low-Mod Housing Fund.

[1] Per Agency Memorandum dated November 6, 2008 on the Proposed Issuance of Tax Allocation Bonds.

Call Features. The SERAF Loan will be callable, to the extent necessary, without penalty to the City or Authority, to the extent that funding sources for the SERAF Loan need to be repaid. For example, if the banks that credit enhance the CP do not renew their LOCs, and/or one of the contributing funds of the Inter-Fund Loan needs to be replenished and/or the LOC securing the 2010C and 2010D Bonds cannot be renewed, the City will need to fund the amount due and may at the City's discretion accelerate the Agency's obligation to repay the corresponding portion of the SERAF Loan.

Security for Agency Loan Repayment. The Agency owned California Theatre, which has an estimated value at least equal to $25 million, will be used to provide collateral for the City of San José Financing Authority CP Program.

Failure to Repay SERAF Loan. If the Agency fails to repay the Housing Fund Loan in full on the payment dates, the percentage of housing set-aside tax increment will increase as required by Sections 33690 and 33690.5 of the Redevelopment Law. Therefore, if this were to occur, the Low-Mod Housing Fund would be obligated to repay the CP Notes from this additional revenue source.

A summary of the sources and use of funds is provided in Table 1 below.

Table 1 – Summary of Sources & Use of Funds *(millions of dollars)*	**FY 2009-10**	**FY 2010-11**	**Total**
Sources of Funds			
Inter-Fund Loan:			
Subdivision Park Trust Fund	$3.0		$3.0
Sewage Treatment Plant Connection Fee Fund	5.0		5.0
Ice Centre Revenue Fund	2.0		2.0
Housing Fund Loan:			
Low-Mod Housing Fund	40.0		40.0
Commercial Paper Program	12.0	13.0	25.0
Total Sources of Funds	**$62.0**	**$13.0**	**$75.0**
Use of Funds			
SERAF Payment	**$62.0**	**$13.0**	**$75.0**

Inter-Fund Loan

In response to Budget Document #11 issued by Councilmembers Liccardo and Pyle as part of the Agency's budget process as well as Council questions on the topic of interdepartmental loans, a preliminary review of the City's 114 budgeted funds was conducted to evaluate the potential for Agency borrowing. Based on that review, while there are many considerations and risks as outlined in the information memoranda on Agency borrowing from City funds from the City Manager, dated November 18, 2009, and December 10, 2009 (see Attachments 3 and 4), it was determined that balances in the Subdivision Park Trust Fund (up to $10 million), the Sewage Treatment Plant Connection Fee Fund (up to $5 million), and the Ice Centre Revenue Fund (up to $2 million) could possibly be used for loans to the Agency, and no additional funding sources could be recommend for Agency borrowing (see attached memoranda).

The City Council Policy on Inter-Fund Loans specifies that such loans must have an identified repayment source and date; include an interest component that equals the investment earnings the fund would have received had the loan not occurred; and be immediately due and payable if needed by the fund that provided the loan. As noted in the Financing Proposal section of this memorandum, the loans to the Agency from the Subdivision Park Trust Fund, the Sewage Treatment Plant Connection Fee Fund, and the Ice Centre Revenue Fund will be repayable from the Agency's 80% tax increment revenue and/or other legally available unrestricted funds in accordance to the terms and conditions of the SERAF Loan as set forth in Attachment 1. The appropriate interest component will be the City's actual monthly pooled investment rate over the life of the loan. As noted in the attached information memoranda, in the event that the Agency ultimately was unable to repay these loans, the City's General Fund may become liable for the loan repayment to these lending funds to meet the needs of these special funds.

With regard to the Inter-Fund Loan from the various special funds recommended, it should be noted that Council approved the Mid-Year Budget Review Report recommendations on February 9, 2010 which included a reduction of $2.7 million to the Sewage Treatment Plant Connection Fee Fund fund balance for 2009-2010. This reduction is a combination of: 1) the continuing impact of the recent recession on connection fee revenues related to development activity and, 2) adjustments to reconcile actual loan repayment receipts from the Storm Sewer Operating Fund. This mid-year action reduced the estimated ending fund balance in that fund from $14.9 million to $12.2 million and, after the further reduction of $5.0 million for the recommended loan to the Agency, would leave $7.2 million of available ending fund balance, increasing the likelihood of capital project or equipment replacement delays during the term of the loan. As discussed above, for any of the three funds proposed for borrowing, in the event of a time-sensitive urgent repair, replacement, or other need, where the City has little discretion to delay, the Agency would be required to repay any portion of the Inter-Fund Loan immediately, in the amount required for such urgent repair, replacement, or other need.

The SERAF Financing Team reviewed the terms and conditions of the SERAF Loan, including the Inter-Fund Loan, with the City Auditor's Office.

Financing Needs of the Low-Mod Housing Fund and Housing Bond Issuance

The Low-Mod Housing Fund currently has approximately $57 million in variable rate Housing Bonds outstanding which are backed by a LOC issued by the Bank of New York (BNY) with an expiration of June 29, 2010 and $50 million in a line of credit with BNY that expired on April 1, 2009. In September 2008, Bank of New York announced that it had stopped issuing new letters or lines of credit in connection with municipal obligations ("credit facilities") and that it would not renew existing credit facilities upon their expiration. A financing team that includes the Departments of Finance and Housing, City Attorney's Office, Redevelopment Agency, Bond Counsel, and Financial Adviser was formed in late 2008 to structure a comprehensive financing plan to meet the Low-Mod Housing Fund's financing needs for future projects and to refinance the BNY credit facilities ("Housing Bonds", Series 2010A-E). The overall bond financing plan is designed to optimize the Housing Department's housing set-aside bonding capacity and cash flow to enable it to fund over the next five fiscal years annual administrative costs and existing loan program for Teachers and Rehabilitation loans.

The scope of the Housing financing plan was further expanded as a result of Council direction for the Low-Mod Housing Fund to loan up to $40 million to the Agency. The financing team is currently in the process of finalizing the financing plan for the Housing Bonds, with an estimated aggregate principal amount not to exceed $166,695,000 to meet its overall funding needs. The full scope of the Housing Bonds and the related financing documents is scheduled for City Council and Agency Board approval on March 2, 2010. The Housing Bonds are scheduled for closing in late March or early April 2010.

The Series 2010C and 2010D Bonds will be issued to finance and refinance loans made or to be made in connection with certain affordable housing projects including Brookwood Terrace, Orvieto Family, Belovida, Fourth Street and Markham Terrace. Upon the issuance of the Housing Bonds, Series 2010C and 2010D, $40 million from the Low-Mod Housing Fund will be freed up to loan to the Agency.

The 2010C and 2010D Bonds will be issued as taxable variable rate demand housing set-aside bonds payable on a subordinate basis to the fixed rate senior lien housing set-aside bonds. Wells Fargo has committed to provide a direct pay LOC that guarantees the payment of principal and interest on the 2010C and 2010D Bonds and liquidity to investors that may tender their bonds. Interest rates on the 2010C and 2010D Bonds are reset weekly; interest will be paid on the first of each month, commencing May 1, 2010. Principal is payable on August 1 of each year, with the anticipated first principal payment date on August 1, 2016. The Wells Fargo LOC has an expiration date of three years. The annual letter of credit fee is anticipated to be1.50% subject to increase in the event that the Agency's senior lien housing set-aside bonds are downgraded.

Due to the increase in debt service related to these bond issues, and maintaining funding levels for core housing programs, the Housing Department is proposing a $1 million budget reduction in staffing levels for FY 2010-11.

Commercial Paper Program

There are several benefits of using the CP Program to fund affordable housing projects, including the relative low cost of the program, market demand for high quality CP Notes, matching of funding date to the actual issuance of the CP Notes which minimizes actual interest expense, and mitigates further needs for Inter-Fund Loans. Another major benefit of using the CP Program is that no CP Notes would be issued if the CRA wins the lawsuit against the State prior to the required funding dates.

The use of the CP Program to fund affordable housing projects and programs is subject to the consent of the LOC banks. Staff has received preliminary indications from one of the banks that it would approve such a use of proceeds. Amendments to the CP program will need further approval of the Council and the Authority. Should the banks reject this use, staff will evaluate and present to Council and Agency Board an alternative option, including the potential of additional borrowings from the Sewage Treatment Plant Connection Fee Fund, the Ice Centre Fund, and temporary loans from various funds as directed by the Mayor and City Council at the December 15, 2009 Redevelopment Agency Board meeting.

Background on City CP Program

Pursuant to the City Council and the Authority Board approval received on November 15, 2005, the Authority is authorized to have up to $116.0 million in CP outstanding at any time. Approximately $48.5 million in CP is currently outstanding, which leaves approximately $67.5 million in available capacity for the City and Authority to utilize for other eligible projects.

The CP Program utilizes a lease revenue financing structure secured by the following City properties: the former City Hall, the Health Building, and "C" and "E" parking lots located at the former City Hall site, the San José Museum of Art, the Tech Museum, the Mexican Cultural Heritage Plaza, the former Martin Luther King Main Library, the Animal Care Center, Fire Station No. 1, the Mabury Yard and the South Yard. Staff has reviewed the list of pledged assets and identified potential replacement assets including the California Theater the Agency shall be pledging for the SERAF Loan, if the need for replacement arises.

The CP Program is backed by an LOC issued by State Street Bank and Trust Company and the California State Teachers' Retirement System (together, the "Banks"). Per the terms of the Letter of Credit Agreement, the Banks are not jointly responsible for payments on the draws made on the Letter of Credit. The respective obligations of the Banks are: State Street Bank -- 75% and the California State Teachers' Retirement System -- 25%. The Letter of Credit Agreement has

recently been extended for a three year period with an expiration date of January 27, 2013. The Banks have approval rights regarding the projects funded by the Authority and the City under the CP Program.

A summary of the projects currently funded by the CP Program is provided in Table 2 below.

Table 2 – Summary of Commercial Paper Capacity and Outstanding Commercial Paper Notes	**Outstanding CP (Millions)**
Commercial Paper Capacity	$116.0
Commercial Paper Notes Outstanding:	
Central Service Yard II	24.3
Integrated Utility Billing, Customer Service and Performance Management System	8.0
Technology, Furniture & Equipment	8.2
HP Pavilion	8.0
Total Commercial Paper Capacity Remaining	**$67.5**

Risks associated with the CP Program

The CP Program is subject to the following risks:

- LOC Renewal Risk - Should the Banks decide not to renew the LOC at the end of the current three year term and no replacement banks are identified, the CP Notes outstanding will need to be repaid in full. The General Fund is ultimately responsible for the repayment of outstanding notes. LOC fees are subject to change at future renewal dates based on market conditions

  To mitigate the risk to the General Fund, the proposed financing plan requires the Agency to provide additional security as collateral (see *Security for Agency Loan Repayment* section above).

- Interest Rate Risk – interest rate for CP Notes may increase significantly depending on the overall financial market conditions.

- Downgrade Risk – the Banks' credit ratings may be downgraded in the future due to changes in the market's perception of the financial health of the Banks. To the extent a downgrade occurs, the CP Notes may become unmarketable.
- Marketability Risk – If there is a lack of market demand for CP Notes, the notes may be tendered back to the Authority and the Authority may not be able to find buyers for these notes.
- The LOC is backed by certain real properties pledged as leased assets by the City and Authority with a total replacement value of approximately $125 million. If any of the underlying leased assets are no longer available (e.g. former Martin Luther King Main Library and the former City Hall), replacement assets would need to be identified or the CP Program capacity may adversely be impacted. Replacement assets require approval by LOC providers. Staff has reviewed the list of pledged assets and identified potential replacement assets if the need for replacement arises.

Utilization of the CP Program

As stated above, the CP Program has a total capacity of $116.0 million, of which approximately $48.5 million in CP Notes is currently outstanding, which leaves approximately $67.5 million in available capacity for the City and Authority to utilize for other eligible projects after funding the Housing projects as described in this report. Although the Agency is required to make minimum quarterly payments for Associated Costs, to the extent that such costs are not paid currently, they will be added to the principal balance owed. This means that the Authority will need to allocate CP capacity in excess of the $25 million principal amount for Housing projects in order to ensure sufficient coverage for both the principal and capitalized interest and fees, which is estimated at $34 million for the 5 year loan period.

This may limit the City and the Authority's ability to fund other capital projects in the future, until the Agency repays the SERAF loan. Examples of potential capital projects that may be considered by Council in the future for use of the CP Program include, but are not limited to, the LED streetlights project, various energy improvements and solar energy projects, technology acquisition and improvements, Airport West project (former FMC site), and other potential capital equipment acquisitions. It should be noted that these projects are provided as examples only and do not represent staff recommendations. None of these projects have been analyzed internally for project feasibility and none have been discussed with Council for further guidance.

EVALUATION AND FOLLOW-UP

This memorandum presents the set of recommendations related to the City Council, the Agency and the Authority's approval of the proposed financing plan to meet the Agency's SERAF payments and authorization to negotiate and execute a Loan Agreement pursuant to the attached Term Sheet. The details relating to the issuance of Merged Area Redevelopment Project Taxable Housing Set-Aside Variable Rate Demand Bonds, Series 2010C and Series 2010D to finance and refinance City loans in connection with certain affordable housing projects are provided in a separate Council Memorandum agendized for the March 2, 2010 Council Meeting. Staff will return to the Council and the Authority Board to request approvals for various actions related to the CP Program and other budget actions at subsequent Council Meetings prior to May 10, 2010. Additionally, the Housing Department is proposing to reduce its administrative budget by $1 million in the Proposed FY 2010-11 Budget to enable the SERAF payment and meet the Guiding Principles outlined earlier in this memorandum. This proposal will be further discussed as a part of the City's FY 2010-11 budget process.

PUBLIC OUTREACH/INTEREST

☒ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This report was prepared by the Finance Department in coordination with the Offices of the City Manager and City Attorney, the Housing Department, the City Manager's Budget Office, and the Redevelopment Agency.

COST SUMMARY/IMPLICATIONS

As stated above, repayment of SERAF Loan principal will be due on or prior to June 30, 2015 in the amount of $62 million plus Associated Costs and on or prior to June 30, 2016 in the amount of $13 million plus Associated Costs. Interest on the SERAF Loan, including fees will be paid quarterly by the Agency to the City on each August 1, November 1, February 1 and May 1, commencing August 1, 2010. To the extent that interest and ongoing fees cannot be paid currently, they will be added to principal balance owed, with interest due on the increased amount.

Staff will return to the Council and the Authority Board to request approvals for the actions related to the CP Program and other budget actions related to the SERAF Loan at subsequent Council Meetings prior to May 10, 2010.

CEQA

Not a project.

Debra Figone
City Manager

Harry S. Mavrogenes
Executive Director, Redevelopment Agency

For questions, please contact Scott P. Johnson, Director of Finance, at (408) 535-7000.

Attachments:

1. SERAF Loan Terms & Conditions
2. Mayor's Budget Message Fiscal Year 2009-2010 Redevelopment Agency Capital and Operating Budget and 2010-2015 CIP - Supplemental (December 8, 2009 Agency Board Agenda, Items 8.3/8.4)
3. Information Memorandum – *Sources of Financing Beyond Affordable Housing Fund* (November 19, 2009)
4. Information Memorandum - *Agency Sources of Funding from City Funds* (December 11, 2009)

City of San Jose Redevelopment Agency

RECONCILIATION OF DRAFT AND CERTIFIED RECOGNIZED OBLIGATION PAYMENT SCHEDULES

County of Santa Clara Auditor-Controller

(Per AB 26 - Section 34177)

City of San Jose Draft Recognized Obligation Payment Schedule						Auditor Controller Exclusions			Auditor-Controller Certification	
Item No.	Project Name or Debt Obligation	Payee	Total Outstanding Debt or Obligation	Source of Payment	Total Obligation Payable 1/1/12 - 6/30/12	Reclassifications	Non-Enforceable Obligations	Reported Obligations w/o Financial Documentation	FY 2011-12 Six-Month Recognized Obligations Jan - Jun 30	Ref
	Schedule 1 Debt Obligations									
1	Series 1993 (Merged Area Refunding)	Union Bank	22,561,800	TI/RDA Trust Fund	1,091,700	-	-	-	1,091,700	1
	Series 1993 Reserve Fund	Union Bank	-							
2	Series 1997 (Merged Area)	Union Bank	8,986,749	TI/RDA Trust Fund	643,170	-	-	-	643,170	2
	Series 1997 Reserve Fund	Union Bank	-							
3	Series 1999 (Merged Area)	Union Bank	17,489,263	TI/RDA Trust Fund	613,700	-	-	-	613,700	3
	Series 1999 Reserve Fund	Union Bank	-							
4	Series 2002 (Merged Area)	Union Bank	15,450,325	TI/RDA Trust Fund	592,426	-	-	-	592,426	4
	Series 2002 Reserve Fund	Union Bank	-							
5	Series 2003 (Merged Area)	Union Bank	238,179,850	TI/RDA Trust Fund	6,228,014	-	-	-	6,228,014	5
	Series 2003 Reserve Fund	Union Bank	12,545,477							
6	Series 2004A (Merged Area)	Union Bank	233,911,609	TI/RDA Trust Fund	33,929,540	-	-	-	33,929,540	6
	Series 2004A Reserve Fund	Union Bank	-							
7	Series 2005A (Merged Area)	Union Bank	188,857,553	TI/RDA Trust Fund	6,522,798	-	-	-	6,522,798	7
	Series 2005A Reserve Fund	Union Bank	-							
8	Series 2005B (Merged Area)	Union Bank	74,264,250	TI/RDA Trust Fund	23,898,000	-	-	-	23,898,000	8
	Series 2005B Reserve Fund	Union Bank	-							
9	Series 2006A (Taxable) (Merged Area)	Union Bank	21,051,800	TI/RDA Trust Fund	751,000	-	-	-	751,000	9
	Series 2006A Reserve Fund	Union Bank	-							
10	Series 2006B (Merged Area)	Union Bank	133,159,000	TI/RDA Trust Fund	3,081,500	-	-	-	3,081,500	10
	Series 2006B Reserve Fund	Union Bank	-							
11	Series 2006C (Merged Area)	Union Bank	730,962,153	TI/RDA Trust Fund	19,137,142	-	-	-	19,137,142	11
	Series 2006C Reserve Fund	Union Bank	-							
12	Series 2006D (Merged Area)	Union Bank	412,044,500	TI/RDA Trust Fund	14,327,950	-	-	-	14,327,950	12
	Series 2006D Reserve Fund	Union Bank	-							
13	Series 2007A (Taxable) (Merged Area)	Union Bank	16,709,715	TI/RDA Trust Fund	2,768,336	-	-	-	2,768,336	13
	Series 2007A Reserve Fund	Union Bank	-							
14	Series 2007B (Merged Area)	Union Bank	359,548,425	TI/RDA Trust Fund	8,972,526	-	-	-	8,972,526	14
	Series 2007B Reserve Fund	Union Bank	-							
15	Series 2008A (Merged Area)	Union Bank	35,089,625	TI/RDA Trust Fund	5,112,706	-	-	-	5,112,706	15
	Series 2008A Reserve Fund	Union Bank	2,525,068							
16	Series 2008B (Merged Area)	Union Bank	163,531,550	TI/RDA Trust Fund	5,335,518	-	-	-	5,335,518	16
	Series 2008B Reserve Fund	Union Bank	8,109,635							
17	Series 1993 (Merged Area Refunding)	Union Bank	127,884	TI/RDA Trust Fund	10,190	-	-	-	10,190	17
	Fiscal Agent Fees	Union Bank								
18	Series 1997 (Merged Area)	Union Bank	52,000	TI/RDA Trust Fund	3,250	-	-	-	3,250	18
	Fiscal Agent Fees	Union Bank								
19	Series 1999 (Merged Area)	Union Bank	58,536	TI/RDA Trust Fund	3,070	-	-	-	3,070	19
	Fiscal Agent Fees	Union Bank								
20	Series 2002 (Merged Area)	Union Bank	79,485	TI/RDA Trust Fund	3,785	-	-	-	3,785	20
	Fiscal Agent Fees	Union Bank								
21	Series 2003 (Merged Area)	Union Bank	77,660	TI/RDA Trust Fund	3,250	-	-	-	3,250	21
	Fiscal Agent Fees	Union Bank								
22	Series 2004A (Merged Area)	Union Bank	85,100	TI/RDA Trust Fund	3,700	-	-	-	3,700	22
	Fiscal Agent Fees	Union Bank								
23	Series 2005A & B (Merged Area)	Union Bank	115,470	TI/RDA Trust Fund	-	-	-	-		23
	Fiscal Agent Fees	Union Bank								
24	Series 2006A & B (Taxable) (Merged Area)	Union Bank	77,070	TI/RDA Trust Fund	-	-	-	-		24

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

RECONCILIATION OF DRAFT AND CERTIFIED RECOGNIZED OBLIGATION PAYMENT SCHEDULES

County of Santa Clara Auditor-Controller

(Per AB 26 - Section 34177)

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	Fiscal Agent Fees	Union Bank								
25	Series 2006C & D (Merged Area)	Union Bank	109,745	TI/RDA Trust Fund	-	-	-	-		41
	Fiscal Agent Fees	Union Bank								
26	Series 2007A & B (Taxable) (Merged Area)	Union Bank	126,925	TI/RDA Trust Fund	-	-	-	-		42
	Fiscal Agent Fees	Union Bank								
27	Series 2008A (Merged Area)	Union Bank	75,060	TI/RDA Trust Fund	2,190	-	-	-	2,190	19
	Fiscal Agent Fees	Union Bank								
28	Series 2008B (Merged Area)	Union Bank	72,090	TI/RDA Trust Fund	-	-	-	-		43
	Fiscal Agent Fees	Union Bank								
29	Series 1996A (Merged Area) (2)	US Bank	37,730,590	TI/RDA Trust Fund	1,028,773	-	-	-	1,028,773	20
	Series 1996A Reserve Fund	US Bank								
30	Series 1996B (Merged Area) (2)	US Bank	37,660,432	TI/RDA Trust Fund	1,060,160	-	-	-	1,060,160	20
	Series 1996B Reserve Fund	US Bank								
31	Series 2003A (Taxable) (Merged Area) (2)	US Bank	48,003,905	TI/RDA Trust Fund	693,620	-	-	-	693,620	21
	Series 2003A Reserve Fund	US Bank								
32	Series 2003B (Merged Area) (2)	US Bank	29,862,992	TI/RDA Trust Fund	665,300	-	-	-	665,300	21
	Series 2003B Reserve Fund	US Bank								
33	Fiscal Agent Fees - Subordinate Obligations	US Bank	166,076	TI/RDA Trust Fund	-	-	-	-		44
	Fiscal Agent Fees	US Bank								
34	LOC Fees	JP Morgan	1,080,000	TI/RDA Trust Fund	1,080,000	-	-	-	1,080,000	23
	Fees									
35	Series 1996A & B (Merged Area)	Citigroup Global Markets, Inc./Merrill Lynch	376,342	TI/RDA Trust Fund	12,000	-	-	-	12,000	24A&B
	Remarketing Fees									
36	Series 2003A (Taxable) (Merged Area)	JPMS LLC Cash Management	478,583	TI/RDA Trust Fund	10,850	-	-	-	10,850	25
	Remarketing Fees									
37	Series 2003B (Merged Area)	Bank of America/Merrill Lynch	213,142	TI/RDA Trust Fund	4,915	-	-	-	4,915	26
	Remarketing Fees									
38	Series 1996A & B; Series 2003A&B; Series 2008F (Merged Area)	Standard & Poors	145,500	TI/RDA Trust Fund	4,500	-	-	-	4,500	27
	Remarketing Fees									
39	4th and San Fernando - Series 2001A	Wells Fargo	48,790,815	TI/RDA Trust Fund	3,362,813	-	-	-	3,362,813	28A
	4TH and San Fernando Reserve Fund									
40	4th and San Fernando - Series 2001A	Wells Fargo - Fiscal Agent Fees	46,200	TI/RDA Trust Fund	2,200	-	-	-	2,200	28A
	Fiscal Agent Fees									
41	Convention Center - Series 2001F	US Bank	170,732,450	TI/RDA Trust Fund	15,536,950	-	-	-	15,536,950	29
	Convention Center Reserve Fund	US Bank	15,563,300							
42	Convention Center - Series 2001F	US Bank	45,885	TI/RDA Trust Fund	-	-	-	-		30
	Fiscal Agent Fees									
43	Series 1997E (AMT) (Merged Area)	Wells Fargo Bank	29,238,288	20% TI/RDA Trust Fund	1,334,712	-	-	-	1,334,712	21
	Series 1997E Reserve Fund	Wells Fargo Bank								
44	Series 2003J (Taxable) (Merged Area)	Wells Fargo Bank	47,276,801	20% TI/RDA Trust Fund	4,018,607	-	-	-	4,018,607	46
	Series 2003J Reserve Fund	Wells Fargo Bank								
45	Series 2003K (Merged Area)	Wells Fargo Bank	8,603,861	20% TI/RDA Trust Fund	477,116	-	-	-	477,116	46
	Series 2003K Reserve Fund	Wells Fargo Bank								
46	Series 2005A (Merged Area)	Wells Fargo Bank	15,693,750	20% TI/RDA Trust Fund	481,587	-	-	-	481,587	47
	Series 2005A Reserve Fund	Wells Fargo Bank								
47	Series 2005B (Taxable) (Merged Area)	Wells Fargo Bank	191,039,365	20% TI/RDA Trust Fund	8,894,671	-	-	-	8,894,671	47
	Series 2005B Reserve Fund	Wells Fargo Bank								

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

City of San Jose Redevelopment Agency

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48	Series 2010A-1 (Merged Area)	Wells Fargo Bank	101,742,412	20% TI/RDA Trust Fund	2,854,782	-	-	-	2,854,782	48
	Series 2010A&B Reserve Fund		9,977,140							
49	Series 2010A-2 (Merged Area)	Wells Fargo Bank	3,215,500	20% TI/RDA Trust Fund	111,150	-	-	-	111,150	48
	Please see Series 2010A above	Wells Fargo Bank	-							
50	Series 2010B (Taxable) (Merged Area)	Wells Fargo Bank	6,057,986	20% TI/RDA Trust Fund	1,637,868	-	-	-	1,637,868	48
	Please see Series 2010A above	Wells Fargo Bank	-							
51	Series 2010C (Taxable) (Merged Area)	Wells Fargo Bank	230,319,989	20% TI/RDA Trust Fund	4,630,947	-	-	-	4,630,947	49
	Series 2010C Reserve Fund		-							
52	Series 1997E (AMT) (Merged Area)	Wells Fargo Bank (Fiscal Agent)	23,250	20% TI/RDA Trust Fund	-	-	-	-		50
	Fiscal Agent Fees									
53	Series 2003J (Taxable) (Merged Area)	Wells Fargo Bank (Fiscal Agent)	16,200	20% TI/RDA Trust Fund	-	-	-	-		49
	Fiscal Agent Fees									
54	Series 2003K (Merged Area)	Wells Fargo Bank (Fiscal Agent)	31,200	20% TI/RDA Trust Fund	-	-	-	-		46
	Fiscal Agent Fees									
55	Series 2005A/B (Merged Area)	Wells Fargo Bank (Fiscal Agent)	37,900	20% TI/RDA Trust Fund	-	-	-	-		47
	Fiscal Agent Fees									
56	Series 2010A (Merged Area)	Wells Fargo Bank (Fiscal Agent)	45,500	20% TI/RDA Trust Fund	-	-	-	-		48
	Fiscal Agent Fees									
57	Series 2010B (Taxable) (Merged Area)	Wells Fargo Bank (Fiscal Agent)	4,500	20% TI/RDA Trust Fund	-	-	-	-		48
	Fiscal Agent Fees									
58	Series 2010C (Taxable) (Merged Area)	Wells Fargo Bank (Fiscal Agent)	34,500	20% TI/RDA Trust Fund	-	-	-	-		49
	Fiscal Agent Fees									
59	Bond Logistics	Third party consultant	150,000	TI/RDATF/Other Rev	150,000		100,000	-	50,000	51
60	CSCDA - 2005 ERAF Loan	CSCDA	8,666,753	TI/RDATF/Other Rev	2,477,175	-	-	-	2,477,175	37
61	CSCDA - 2006 ERAF Loan	CSCDA	9,066,536	TI/RDATF/Other Rev	2,014,600	-	-	-	2,014,600	38
62	Low Moderate Income Fund Loan 1	City of San Jose	52,720,679	TI/RDATF/Other Rev	755,178	-	-	-	755,178	62 & 63
63	Low Moderate Income Fund Loan 2	City of San Jose	14,395,834	TI/RDATF/Other Rev	24,000	-	-	-	24,000	62 & 63
64	SERAF Loan Monitoring Fee	City of San Jose	750,000	TI/RDATF/Other Rev	-	-	-	-		62 & 63
65	Agency Bond Activities	Jones Hall	27,280	TI/RDATF/Other Rev	27,280	-	-	-	27,280	54
66	Agency's Operations	Urban Analytics, LLC	30,000	TI/RDATF/Other Rev	30,000	-	-	-	30,000	55
	Subtotal Schedule 1		3,767,376,288		186,417,215	-	100,000	-	186,317,215	

Source: City of San Jose Redevelopment Agency

ATTACHMENT A

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

February 15, 2013

Ms. Lesiye Corsiglia, Director of Housing
City of San Jose
200 East Santa Clara Street
12th Floor, Housing Department.
San Jose, CA 95113

Dear Ms. Corsiglia:

Subject: Housing Assets Transfer Form

This letter supersedes Finance's Housing Asset Transfer Form letter dated August 31, 2012. Pursuant to Health and Safety Code (HSC) section 34176 (a) (2), the City of San Jose as Housing Successor Agency (Agency) submitted a Housing Assets Transfer Form (Form) to the California Department of Finance (Finance) on August 1, 2012, for the period February 1, 2012 through August 1, 2012. Finance issued its determination related to those transferred asset on August 31, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more items that was objected to by Finance. The Meet and Confer session was held on January 28, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed.

- Exhibit C, Item 4 and Exhibit D, Item 8 – Eden Housing Loan Agreement. Finance continues to object to the transfers. Finance originally objected to the transfers because the loan agreement for Eden Housing was entered into on June 29, 2011; however, HSC section 34163 (b) prohibits an agency from entering into a contract with any entity for any purpose after June 27, 2011. The Agency contends the items are housing assets because on March 29, 2011, the City Council and former Redevlopment Agency (RDA) Board approved the Development and Disposition Agreement (DDA), which was signed on June 29, 2011. However, the resolution provided show that the Council of the City of San Jose (City Council) approved the DDA between the City and Eden Housing and not the former RDA Board. Therefore, the DDA is not an enforceable obligation of the former RDA. Since there is no enforceable obligation associated with the Exhibit C, Item 4 encumbrance, the item is not a housing asset pursuant to HSC section 34176 (e) (2). Furthermore, to the extent that former RDA funds were used to fund the Exhibit D, Item 8 loan receivable, the asset should be returned to the successor agency. The successor agency shall administer the loan receivable and any payments received shall be used to fund approved enforceable obligations or be disbursed to the affected taxing entities.

- Exhibit D, Items 1176 through 1195 – These are rehabilitation loan receivables entered into after June 27, 2011. HSC section 34163 (b) prohibits an agency from entering into

loans, agreements, or contracts with any entity for any purpose after June 27, 2011. The Agency did not object to the determination and stated that the items were listed in error because these were items funded through City agreements and not by the former RDA. Therefore, the items are not housing assets and should be removed from the Form.

- Exhibit G, Item 1 – A reported $56 million in deferred receivable related to a Supplemental Educational Revenue Augmentation Fund (SERAF) loan out of the successor agency's Low and Moderate Income Housing Fund (LMIHF). Finance continues to object to the transfer. Finance originally objected to the transfer because the Santa Clara County Auditor-Controller's Office provided Finance with a preliminary objection determination. According to the Auditor-Controller's Office, the loan was funded using successor agency Tax Allocation Bond (TAB) proceeds, which are currently in repayment from the Redevelopment Property Tax Trust Fund (RPTTF) through the successor agency's Recognized Obligations Payment Schedule (ROPS). The Agency contends the item is a housing asset because the SERAF payment was made with $10 million in interfund loans and $52 million in cash from the LMIHF.

  Finance does not dispute that the SERAF payment was made with cash from the LMIHF. However, based on our review, the SERAF Loan for $56 million was funded from two sources: (1) the February 23, 2010 Loan Agreement between the City and the former RDA and (2) from funds borrowed from the 2010 Housing TABs ($12 million and $40 million, respectively, plus all fees and interest incurred). The LMIHF acted as a conduit between the City and the former RDA under the loan agreement. Specifically, the loan agreement states "The City shall repay the [City of San Jose Financing] Authority, from the [LMIHF]" and that "The City's obligation to repay the Authority Loan from the [LMIHF] shall be contingent on the [former Revelopment] Agency's repayment of the SERAF Loan." The obligations to repay the Loan Agreement, as a repayment of the Commercial Paper that was issued, and the principal and interest on the bonds are already listed on the Recognized Obligation Payment Schedule (ROPS) to be paid by the successor agency. Therefore, the item is not a housing asset eligible for transfer.

This is Finance's final determination related to the assets reported on your Form. Except for items disallowed as noted above, Finance is not objecting to the remaining items listed on your Form. Assets transferred deemed not to be a housing asset shall be returned to the successor agency.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Rachel VanderVeen, Administrative Officer, City of San Jose
Ms. Irene Lui, Controller Treasurer, Santa Clara County
Ms. Jacelyn Ma, Property Tax Manager, Santa Clara County
Ms. Manju Beher, Internal Auditor Supervisor, Santa Clara County
California State Controller's Office

RD:PAD:CER
8-21-2014

John Guthrie Redline

OVERSIGHT BOARD
RESOLUTION NO. _____

A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE APPROVING A PARTIAL REINSTATEMENT OF LOAN AGREEMENT BY AND BETWEEN THE SUCCESSOR AGENCY AND THE CITY OF SAN JOSE RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND ("SERAF LOAN") REINSTATING A PORTION OF THE SERAF LOAN, IN THE PRINCIPAL AMOUNT OF $10,000,000, AND REVISING THE REPAYMENT TERMS TO CONFORM TO THE REQUIREMENTS OF HEALTH AND SAFETY CODE SECTION 34191.4, AND MAKING NECESSARY FINDINGS

WHEREAS, on July 29, 2009, the Governor signed the FY 2009-10 State Budget, including ABX1 26, which required redevelopment agencies in the State to make payments to a Supplemental Education Revenue Augmentation Fund ("SERAF") for FY 2009-10 and FY 2010-11; and

WHEREAS, ABX1 26 added Section 33020.5 to the redevelopment law, adding to the definition of redevelopment "payments to school districts in the fiscal years" 2009-10 and 10-11. As such, the law provides that the purpose of the SERAF Loan, to make the required payment, is a legitimate redevelopment purpose; and

WHEREAS, in May 2010, the former Redevelopment Agency of the City of San José ("Agency"), the City of San José ("City"), and the City of San José Financing Authority entered into a Loan Agreement pursuant to which the Agency borrowed a total of $75 million from various City sources in order to pay the State

mandated SERAF payments of $62 million in May 2010 and $12.6 million in May 2011. The Loan Agreement was amended in May 2011 to allow the City to change the source of payment to the Agency to make the 2011 SERAF payment; and

WHEREAS, the $12.6 million 2011 payment was made from available housing cash and was allowed as a Housing SERAF Loan on the County Auditor-Controller Agreed Upon Procedures ("AUP") audit and is not at issue here; and

WHEREAS, the 2010 SERAF loan was made from various sources available to the City, including $10 million in cash idle moneys from various special funds known as the "Inter-Fund Loan": $5 million Sewage Treatment Plant Connection Fee Fund, $3 million Subdivision Park Trust Fund, $2 million Ice Centre Revenue Fund; and $52~~65~~ million "Housing Fund Loan" from the Agency's Low and Moderate Income Housing Fund; and

WHEREAS, the $52 million 2010 "Housing Fund Loan" was funded in full from housing variable rate bonds and commercial paper which were issued at that time and for which the Successor Agency has inherited full responsibility to pay as enforceable obligations under the Dissolution Law; and

WHEREAS, the actual "Housing Fund Loan" between the Agency and the City required the Agency to pay all debt service costs, set interest rates identical to the housing variable rate bonds and commercial paper and required the Agency to pay all related ongoing costs of the debt issue, including rating agency and trustee costs and thereby hold the City housing funds harmless for the payment of $52 million in housing variable rate bonds and commercial paper until all principal and debt costs were repaid in full by the Agency; and

WHEREAS, the County Auditor-Controller AUP audit of the Agency (which is

incorporated by reference herein) found and the State Department of Finance subsequently agreed with the findings that the 2010 "Housing Fund Loan" was a "passthrough" mechanism to permit the housing funds to recover the debt service costs related to $52 million in housing variable rate bonds and commercial paper, and that this loan lost its purpose and became unenforceable when the Agency took over the responsibility for payment of housing variable rate bonds and commercial paper; and

WHEREAS, if the Agency were to be required to pay this $52 million "Housing Fund Loan," it would be paying twice for one loan: once to the housing bondholders and once to the City housing funds; and

WHEREAS, the payment of this $52 million "Housing Fund Loan" to the City would result in a windfall of $52 million to the City housing funds, which was not the intention of either the original "Housing Fund Loan" agreement or the Dissolution Law; and

WHEREAS, effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB X1 26, and with narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB X1 26; and

WHEREAS, in June 2012, AB 1484 was approved, and some loans between cities and their redevelopment agencies may be deemed an enforceable obligation of the Successor Agency contingent upon 1) a finding by the California Department of Finance ("DOF") that certain specified audits of the Successor Agency have been completed, and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of AB 1484, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities; and

WHEREAS, on August 30, 2013, the DOF issued a Finding of Completion to the Successor Agency; and

WHEREAS, the proposed Partial Reinstatement of Loan Agreement is to reinstate the "Inter-Fund Loan" portion of the SERAF Loan as an obligation between the City and Successor Agency, and to revise the repayment terms to conform to the requirements of Health and Safety Code Section 34191.4;

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE that:

1. The above recitals are true and correct.

2~~4~~. The original $10 million "Inter-Fund Loan" SERAF Loan entered into by the former Redevelopment Agency in May 2010 for the purpose of making a required payment to school districts was a legitimate redevelopment purpose.

3~~2~~. The Partial Reinstatement of Loan Agreement by and between the Successor Agency to the Redevelopment Agency of the City of San José and the City of San José Related to the SERAF Loan reinstating a portion of the SERAF Loan, in the principal amount of $10,000,000, and revising the repayment terms to conform to the requirements of Health and Safety Code Section 34191.4 is approved.

4~~3~~. The Oversight Board deems that in restoring the $10 million "Inter-Fund Loan" portion of the SERAF Loan and in paying all housing variable rate bonds and commercial paper borrowings as enforceable obligations, and in honoring the $12.6 million 2011 SERAF Loan as an enforceable obligation, the Agency conclusively fulfills its obligation in full to pay for any and all

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8-21-2014 John Guthrie Redline

amounts advanced for the SERAF payment to the State.

ADOPTED this _____ day of _____, 2014, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

_____

CHUCK REED
Chair

ATTEST:

_____
TONI J. TABER, CMC
Successor Agency Clerk

OVERSIGHT BOARD

RESOLUTION NO. **2016-05-1121**

A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE DIRECTING THE SUCCESSOR AGENCY TO REMOVE THE PORTION OF THE SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND PAYMENTS LOANED IN THE AMOUNTS TOTALING APPROXIMATELY $52 MILLION FROM ITS FINANCIAL STATEMENTS, AND MAKING NECESSARY FINDINGS

WHEREAS, on July 29, 2009, the Governor signed the FY 2009-10 State Budget which required redevelopment agencies in the State to make payments to a Supplemental Education Revenue Augmentation Fund ("SERAF") for FY 2009-10 and FY 2010-11 in order to continue in operation; and

WHEREAS, the former Redevelopment Agency of the City of San José ("RDA") chose to make SERAF payments in the amounts of $62,247,530 for FY 2009-10 ("2009-10 SERAF Payment") and $12,815,668 for FY 2010-11 ("2010-2011 SERAF Payment") (collectively the "SERAF Payments"); and

WHEREAS, the RDA did not have sufficient funding available to make the SERAF Payments, and desired to use funds and borrowing capacity from the RDA's Low-Mod Housing Fund ("Housing Fund") to make the SERAF Payments; and

WHEREAS, the City of San José ("City") is the administrator for the Housing Fund; and

WHEREAS, on February 23, 2010, the RDA, the City, and the City of San José Financing Authority ("Authority") entered into a loan agreement in order to make funding available to the RDA to make the SERAF payments, and that loan agreement was subsequently amended by that certain First Amendment to Loan Agreement, dated May 10, 2011 (the "First Amendment") (the loan agreement, as amended by the First Amendment, is referred to herein as the "Loan Agreement"); and

WHEREAS, the Loan Agreement authorized the City to make two loans to the RDA, one in the amount of $62 million not later than May 10, 2010 and one in the amount of $13 million not later than May 10, 2011, totaling $75 million; and

WHEREAS, the amount loaned to the RDA, $75 million, was funded from two main funding sources: the Housing Fund in the amount of $65 million (the "Housing Fund Loan") and a cash loan directly from various City sources in the amount of $10 million (the "Inter-Fund Loan"); and

WHEREAS, the Housing Fund did not have sufficient cash to loan the RDA the full $65 million for the Housing Fund Loan; therefore, the Housing Fund ultimately borrowed $12 million from the Authority's Commercial Paper program and issued housing variable rate bonds in the amount of $40 million (the "Bond Proceeds"); and

WHEREAS, pursuant to the Loan Agreement, as amended, the Housing Fund borrowed a total of $52 million from the combined Commercial Paper from the Authority and the Housing Fund's Bond Proceeds (the "Low-Mod Loan"), comprising $12 million from the Commercial Paper and

$40 million from Bond Proceeds, respectively; and the Low-Mod Loan was issued at the same time as the 2009-2010 SERAF Payment; and

WHEREAS, pursuant to Paragraph 5 of the Loan Agreement, repayment of the Low-Mod Loan by the RDA was made to exactly match the Commercial Paper and Bond Proceeds debt obligation amounts including interest, principal, and all debt-related fees, creating a pass-through mechanism, where the Housing Fund was the pass-through entity. Essentially, the RDA was to pay the Housing Fund, and the monies received from those RDA payments would be used to make the Commercial Paper and Bond Proceeds debt service payments and all related costs. Therefore, the Housing Fund only was intended to be made whole for its own underlying borrowing of the Commercial Paper and Bond Proceeds; and

WHEREAS, effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to ABX1 26, and at this time, the Successor Agency to the RDA ("Successor Agency") was created to wind down and dissolve the remaining debts and obligations of the RDA; and

WHEREAS, after the dissolution of the RDA, the debt obligations of the Housing Fund were listed for payment by the Successor Agency on the Recognized Obligation Payment Schedule ("ROPS"), and this eliminated the pass-through mechanism because the payments for the debt obligations are made directly by the Successor Agency rather than from the Housing Fund; and

WHEREAS, the County of Santa Clara discussed the invalidity of the Low-Mod Loan in its Agreed Upon Procedures Report dated October 5, 2012 (see Exhibit A, attached hereto); and

WHEREAS, the Successor Agency has unsuccessfully attempted to validate the Low-Mod Loan in two instances through forms and reviews submitted to the Department of Finance ("DOF"): (1) the Housing Asset Form which was denied on August 31, 2012 (see Exhibit B, attached hereto) and ultimately denied on February 15, 2013 (see Exhibit C, attached hereto); and (2) the Low and Moderate Income Housing Fund Due Diligence Review which was denied on February 6, 2013 (see Exhibit D, attached hereto) and ultimately denied by DOF after a meet-and-confer on March 14, 2013 (see Exhibit E, attached hereto); and

WHEREAS, if the Successor Agency were to be required to pay the $52 million Low-Mod Loan, it would be effectively paying twice for one loan: once to the Commercial Paper and Bond Proceeds debt holders and once to the Housing Fund; and

WHEREAS, pursuant to Health and Safety Code section 34181 (b), the Oversight Board must direct the Successor Agency to cease performance and terminate all existing agreements that do not qualify as enforceable obligations;

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE THAT:

1. The Oversight Board hereby finds, resolves, and determines that the foregoing recitals are true and correct, and, together with information provided by the Successor Agency staff, Oversight Board members, and the public, form the basis for the approvals, findings, resolutions, and determinations set forth below.

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2016-05-1121

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2. The Successor Agency is directed to remove the Low-Mod Loan consisting of the Commercial Paper and Bond Proceeds, in the total principal amount of approximately $52 million, from its financial statements.

ADOPTED this 26th day of May, 2016, by the following vote:
AYES: **Maduli, Andrade, Guthrie, Shannon, Tinsley, Cauble; Estremera**
NOES: None
ABSENT: None.
DISQUALIFIED: None.

TONY ESTREMERA
Chair

ATTEST:

TONI J. TABER, CMC
Successor Agency Clerk

EXHIBIT A: Section 9 of the Agreed Upon Procedures Report for the San Jose Successor Agency dated October 5, 2012

EXHIBIT B: Housing Assets Transfer Form determination letter dated August 31, 2012

EXHIBIT C: Housing Assets Transfer Form determination letter dated February 15, 2013

EXHIBIT D: Low and Moderate Income Housing Fund Due Diligence determination letter dated February 6, 2013

EXHIBIT E: Low and Moderate Income Housing Fund Due Diligence determination letter dated March 14, 2013

EXHIBIT F: Independent Auditor's Reports and Basic Financial Statements for the Year Ended June 30, 2015

EXHIBIT A

Section 9

Treatment of SERAF Loans

We are confronted by a unique arrangement and must decide the appropriate accounting treatment in establishing the assets to be transferred to the City Housing Fund (HF) and the appropriate liabilities for the Successor Agency.

General question: Should the Successor Agency be required to list two separate debts as enforceable obligations and pay twice for what was one SERAF Loan to the RDA, i.e., pay once to the Housing Fund for a SERAF Loan and pay separately to the variable rate note holders for debt incurred by the HF which underwrote that very loan.

A second related question: Should the City of San Jose Housing Fund (HF) receive and maintain a SERAF loan on its balance sheet payable by the Successor Agency when the Successor Agency is concurrently paying off bond debt inherited from the Housing Fund which underwrote the loan?

Background: Exhibit A-1 details the basic transaction. In summary, the City and RDA staff was directed by the City Council to develop a financing plan to enable the RDA to make two SERAF payments: a payment of $62 million in May 2010 and a second payment of $12.8 million in May 2011.

The 2010 payment of $62 million came from three sources:

- A $10 million loan to the RDA from three city funds. This is a direct city loan which is not in question.
- A $12 million drawdown from the City's commercial paper program. According to City staff, the Housing Fund used its newly created authority (February 12 and April 8, 2010 Council Memos – Exhibits G & C) to use proceeds on housing projects and lend freed up cash to the RDA as a SERAF loan.
- A $40 million loan from the HF which was the result of an underlying variable rate debt note of $40M (Housing 2010 C TABs, with a total amount of $96M) backed by Wells Fargo Bank. In between, the City again did a legal substitution of cash for loan proceeds, and used existing housing cash of $40 million to make the RDA loan and used the debt proceeds to backfill the cash to fund housing projects. According to the staff reports of November 20, 2009 and February 12, 2010 (Exhibits B & G) this was necessary as lenders would not allow the HF to directly make a SERAF loan from debt proceeds.

The subsequent $12.8 million 2011 payment came directly from HF cash. This is a direct SERAF loan and is not a question. Under these conditions, the HF clearly lent cash and under AB 1484 is entitled to recover this legitimate SERAF housing loan to make it whole.

There is no disagreement as to the basic facts of the transaction itself. The disagreement is to the accounting treatment of this transaction. Should the HF maintain a SERAF receivable (asset) and should the Successor Agency's liabilities include two payment amounts, one to the HF for a $82 million SERAF loan including estimated interest and fees and a second to the variable debt bond holders? A second underlying question: should the entire transaction be viewed as one transaction or, as the City believes,

should it be parsed into two transactions where the debt borrowings by the City and HF and the loan to RDA by the HF are two separate isolated transactions? A final question is why did the City initially include the TAB liability as two separate enforceable obligations but only list the $12 million commercial paper debt once, as a SERAF payable to housing?

Discussion:

The City's position, as shown in Exhibit A-2, is that there were two separate transactions, one to borrow $52 million from the debt markets and a second to make a $52 million 2010 SERAF loan to the RDA. Under this view the HF SERAF loan to the RDA is a valid asset and the Successor Agency should reflect two liabilities, one that it owes to variable rate debt holders for the transferred housing debt from the HF and a second that is payable to the HF for an independent SERAF loan. The City maintains that the HF is owed this money because it was deprived of using this debt capacity and debt proceeds to fund additional housing projects that were in the "development pipeline." Additionally the City believes that it is owed the $52 million of principal, plus future interest and variable rate debt fees that exactly mirror the variable rate debt obligation's interest and fees of $30 million on a prorated basis, plus City costs for loan monitoring fees of $2.3 million (totaling $84.4 million). (See Exhibit F). However, the City initially only listed the $12 million as a SERAF Loan but did not list the underlying Commercial Paper liability on its EOPS or ROPS. Given the similarity of the two loans, this appeared to be an inconsistent accounting treatment. However, when we pointed out this inconsistency, the City added the commercial paper debt of $14,227,000 to its third ROPS (for the period January through June 2013).

The alternate position, as shown in Exhibit A-1, is that this was essentially one transaction; that the whole funding plan was based on one policy mandate to borrow money to provide money to the RDA to make the SERAF payment to the state; that the SERAF loan by the HF was a passthrough vehicle to parallel the variable rate debt obligations virtually to the penny and transfer payments from the RDA to the debt holders, essentially holding the City harmless, and as such it should be written off when the underlying debt is transferred to the Successor Agency; that the Successor Agency should not be required to pay for one SERAF loan twice; that the HF suffered no loss that should entitle it to repayment and, instead, the HF at best incurred a "lost opportunity" not a true financial loss; that the intent of AB 1484 is to make the Successor Housing Agency whole for actual losses, not provide a windfall gain for this odd type of arrangement.

Section 9

Audit Questions:

1.) Did the HF incur an actual loss of funds from this transaction, such that it could have a valid claim to be made whole under the intent of AB 1484?

2.) Was the HF SERAF loan receivable designed to parallel the underlying variable rate debt service and thus serve as a passthrough vehicle to hold the City harmless and transfer money from the RDA to the variable rate debt holders?

3.) Would the proposed accounting treatment and the disclosure on government-wide (full accrual) financial statement make sense under either the City's position or the alternate position?

4.) Was this essentially one transaction or two separate and independent transactions?

5.) Why was there an apparent initial inconsistency in the accounting treatment between the $40 million TAB and the $12 million commercial paper program?

6.) Even if accounting rules allowed this receivable, what would be its appropriate treatment under AB 1484?

Each of these has been examined based on staff memos, loan documents and other evidentiary material.

1.) **Did the HF incur an actual loss of funds from this transaction, such that it could have a valid claim to be made whole under the intent of AB 1484?**

There is no actual financial loss to the housing fund under this borrowing and simultaneous lending transaction. At best this was a "lost opportunity" of not being able to borrow these funds to develop projects in the HF's "development pipeline."

Through its approval to make this SERAF loan to the RDA, the City Council made a deliberate decision to defer these pipeline projects until after 2015 at best. Further, given the RDA's solvency problems, there was a strong likelihood that this would result in a RDA default in 2015, further delaying pipeline projects while the HF waited for a mandatory 5% increase in the housing set-aside. This was explained in the Council Memo of February 12, 2010 (Exhibit G). Given the RDA's existing debt load and low property tax growth, it is even questionable if the increased 5% set-aside could have occurred without causing a debt default by the RDA. All parties knew of these risks when the Council approved the financing plan. The November 20, 2009 staff report (Exhibit B, page 6) states "If the Agency were to borrow funds from the affordable housing program over the next two years, funds would not be available to make new commitment for affordable housing projects in the pipeline . . . and for the next five years . . . approximately 1000 affordable units would be delayed or lost due to lack of funding."

Conclusion: We see no basis for the claim that the HF should "be made whole" under AB 1484 for a perceived "opportunity loss" which in reality is neither a true financial nor economic loss. By contrast, the 2011 $12.8 million cash payment by the HF to RDA is a perfect example of a true economic loss and SERAF loan #2 is not being challenged for that reason.

2.) Was the HF SERAF loan receivable designed to parallel the underlying variable rate debt service and thus serve as a passthrough vehicle to hold the City harmless and transfer money from the RDA to the variable rate debt holders?

Both the February 12, 2010 Council Memo and the February 23, 2010 loan agreement between the City, the City's Finance Authority, and the RDA (Exhibits G and D) directly tie this SERAF loan to both the underlying variable rated housing debt (Housing Series 2010C of $40 million) and the Commercial Paper note draw of $12 million. Those documents state directly that "In order to make this Loan and to continue to provide an affordable housing program, the Low Mod Housing Fund will need to borrow from the following sources:" and then explicitly detail the two borrowing sources, i.e. the two debt issues.

In addition, the loan agreement (Exhibit D) details that the charges to the RDA directly mirror the underlying interest calculation payable to each source separately. (See also Exhibit E, the August 1, 2012 Housing Asset Transfer List, showing the proposed account receivable to the HF as reflecting the underlying interest and debt obligations.) Further, it passes all underlying costs associated with the $40 million TABs and the $12 million Commercial Paper—including insurance cost, bank fees and third party administrator costs—directly to the RDA on a prorated basis. It clearly states that "The City's obligation to repay the Authority Loan (i.e. the two debt sources) from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below." This contrasts starkly with the 2011 SERAF loan, which was housing cash, and which accrues interest at the City's pool rate. (See Exhibit E.)

In addition, the City's financial plan authorized the expansion of the Commercial Paper Notes up to $34 million for the Housing Fund. According to City staff, $9 million of this increase was to cover the contingency that the RDA could not pay current interest and fee costs when due. In this event, those costs would be rolled over into commercial paper principal until the RDA could start paying. This feature was used to cover approximately $2,227,000 in debt costs not paid by the RDA. This exemplifies the extreme efforts of the City to directly tie the underlying borrowing to the SERAF receivable.

Lastly, the November 20, 2009 staff memo (Exhibit B, page 4) from the Housing Director, in exploring options to borrow funds from the debt market to make the SERAF loan, stated directly that "If the lawsuit (regarding the validity of SERAF payments) is successful, the (variable rate) bonds could be repaid (at any time) by the Agency's repayment of SERAF Loan (to the HF)." This

again shows the intent to pay off the underlying variable rate debt immediately if the funds were not needed to pay the state.

Conclusion: The SERAF loan is a direct passthrough vehicle designed to mimic the underlying variable rate debt and pass the variable rate debt interest and all related costs to the RDA, and to transfer all payments from the RDA back to the Financing Authority to pay off the two underlying debt issues. If the RDA met the loan obligations, the City and the Housing Fund were held harmless for the payment of this debt. Even if the RDA payments were not timely, the Commercial Paper Notes would cover this shortfall until the RDA could meet its obligations.

3.) Would the proposed accounting treatment and the disclosure on government-wide (full accrual) financial statement make sense under either the City's position or the alternate position?

Double entry accounting requires offsetting entries. In the case of the City's position, the $52 million variable loan balances would be written off of the government-wide balance sheet upon the legal transfer of the debt to the Successor Agency and, on the financial statement, the offset would be shown as an increase to the HF fund balance. This could be done by two methods:

1. A revenue item on the income statement, or most probably,
2. An extraordinary item as a credit (increase) directly to fund balance.

Either of these treatments would require note disclosure and both would be considered essentially a one-time windfall event. Under the circumstances, it makes no accounting sense for the HF to record an extraordinary windfall gain especially when this compensates for a non-financial loss and results in a doubling of the liability to be paid from the Successor Agency.

The alternate accounting treatment is very straight forward. The transferred debt reduction would directly offset a write off of the SERAF receivable. Considering the fact that this receivable's only purpose was to provide a passthrough mechanism for the payment of the debt (inclusive of all interest, debt costs, and even payment deferrals), we believe that this asset's write off is the appropriate accounting treatment. Stated another way, this asset lost its value and collapsed when its reason for being terminated, in this case when the debt for which it was created was transferred from the HF fund to the Successor Agency.

4.) Was this essentially one transaction or two separate and independent transactions?

From the fall of 2009 when the City Council called for a financing plan to fund the SERAF payment for the RDA through the spring of 2010 when the first SERAF payment of $62 million was made, no one could have imagined the subsequent laws ending redevelopment, the unique structure of this deal, or the intent of AB 1484. As a consequence, the staff reports and loan documents are especially candid and lay out an express intent to use City and HF credit to borrow from the debt markets to make the RDA's SERAF payment to the State.

Policy Intent: The staff reports of November 20, 2009 and February 12, 2010 (Exhibits B & G) expressly state that the policy mandate was to develop one financing plan to borrow money from the bond market to pay the SERAF payment to the State. The reports indicate that the banks were asked if they would lend for the SERAF directly and that they declined, thus requiring a fund substitution to "free up" cash "to make the SERAF payment." While the financing plan subsequently went through many changes and modifications, the policy intent was clear: to "maintain some housing programs" while borrowing funds to make the SERAF payment. If as the City claims, the debt borrowings and the RDA loan were entirely separate transactions, then why were they both covered in one financing plan and not detailed in independent staff reports? The February 12, 2010 report (Exhibit G, page 2) was particularly explicit in detailing the funding mechanism:

> $52 million will be a loan from the City's Low and Moderate Income Housing Fund (the "Low-Mod Housing Fund") fund balance of which $40 million will be generated through the issuance of Housing Set-Aside Tax Allocation Bonds ("Housing Bonds") and $12 million will be generated through the City of San José Financing Authority's issuance of Commercial Paper ("CP") Notes.

Loan Document: As discussed above (audit question 2) the loan document expressly ties the RDA's SERAF payments directly to the underlying debt obligations, inclusive of interest and all debt related costs, and it clearly states that all payments would come from the RDA. If the RDA met the loan terms, the City was held harmless from the issued variable rate debt payment obligations.

Conclusion: The City is essentially making its entire argument for the double charge to the Successor Agency on the premise that the cash substitution makes the funding two independent transactions and, therefore, even though there was no loss incurred the HF, the Fund is, nonetheless, entitled to an extra payment of $82 million. This is a false premise. This transaction should be viewed in its entirety as one transaction. Any intermediate steps imposed by the lenders for a cash substitution were a requirement to obtain financing, but do not change the basic intent to borrow funds from the debt market to make the SERAF payment.

5.) Why was there an apparent inconsistency in the initial accounting treatment between the $40 million TAB and the $12 million commercial paper program?

This question was asked to the City staff on a phone call on August 14, 2012 by County staff. The City eventually responded that this probably was an omission in preparing the EOPS and ROPS, and it did not rule out the possibility of adding the $12 million to a future ROPS. Consequently, the city subsequently added $14,222,000 to its third ROPS. Nonetheless, this initial inconsistent treatment raises the implication that the City appropriately viewed the $12 million commercial paper transaction as a pass-through liability.

6.) Even if accounting rules allowed this receivable, what would be its appropriate treatment under AB 1484?

Health and Safety Code section 34176(e) specifically defines "housing asset" for purposes of RDA Dissolution. The definition generally includes repayments of loans or deferrals owed to the Low and Moderate Income Housing Fund. (See Health and Safety Code section 34176(e)(6).) However, that definition is predicated on the existence of a valid receivable, which the evidence described herein and accounting principles forecloses. But even if a valid receivable existed, "If a housing asset has been previously pledged to pay for bonded indebtedness, the successor agency shall maintain control of the asset in order to pay for the bond debt." (Health and Safety Code section 34176(a)(2).) In this case, the City has argued for the purposes of the "reverse waterfall" in Health and Safety Code section 34183(b), that the repayment of the Housing Bond and the Commercial Paper are "bonded indebtedness." And here the loan document provides for the pass-through of the SERAF loan for their repayment. Therefore, the receivable would remain a Successor Agency asset and, accordingly, collapse down against the underlying debt listed on the ROPS.

General Conclusion: No matter which way this is examined, this is an accounting issue. We are being asked to establish assets and liabilities for the Successor Agency based on our expertise and professional judgment in compliance with the generally accepted accounting principles and in performing the AUPs.

Common sense accounting does not support the idea that one receipt of money from one loan should cause the Successor Agency to pay twice for that one loan. The City denies that this is "double accounting" by arguing that both debts are enforceable obligations based on two separate transactions. We do not believe that the evidence examined supports the City's position that these were two entirely separate transactions and should be paid twice for essentially one loan to the RDA. Nor do we believe that it is in the public interest or in the intent of ABX1 26 and AB 1484 to double an $82 million liability to the Successor Agency based solely on a cash substitution scheme. Finally, the asset could not transfer to the HF in any event.

We are therefore denying $82 million of the SERAF #1 loan to the Housing Fund. This represents the principle of $52 million and the estimated interest and fees of $30 million. We believe that

the $2.4 loan monitoring fees, separately listed on the ROPS, is enforceable under the loan agreement and this amount is not double counted.

Given the elimination of all SERAF loan #1 payments due to the HF, the assets transferable to the Housing Successor Agency (Section 1, Line 4) is reduced to its net realizable value of $12,815,668 representing the 2011 SERAF loan #2. Interest on that loan should be accrued as earned by the Housing Fund.

The City may provide an appropriate response and submit their rebuttal to the DOF with this AUP report. The State Department of Finance will make the final determination.

Attachments:

Exhibit A – Flow chart of 2010 SERAF Loan Proceeds of $62 million

Exhibit B – Council Memo November 20, 2009 Re: Financing options

Exhibit C – Council Memo April 8, 2010 Re: Commercial Paper Program

Exhibit D – SERAF Loan Agreement of February 23, 2010

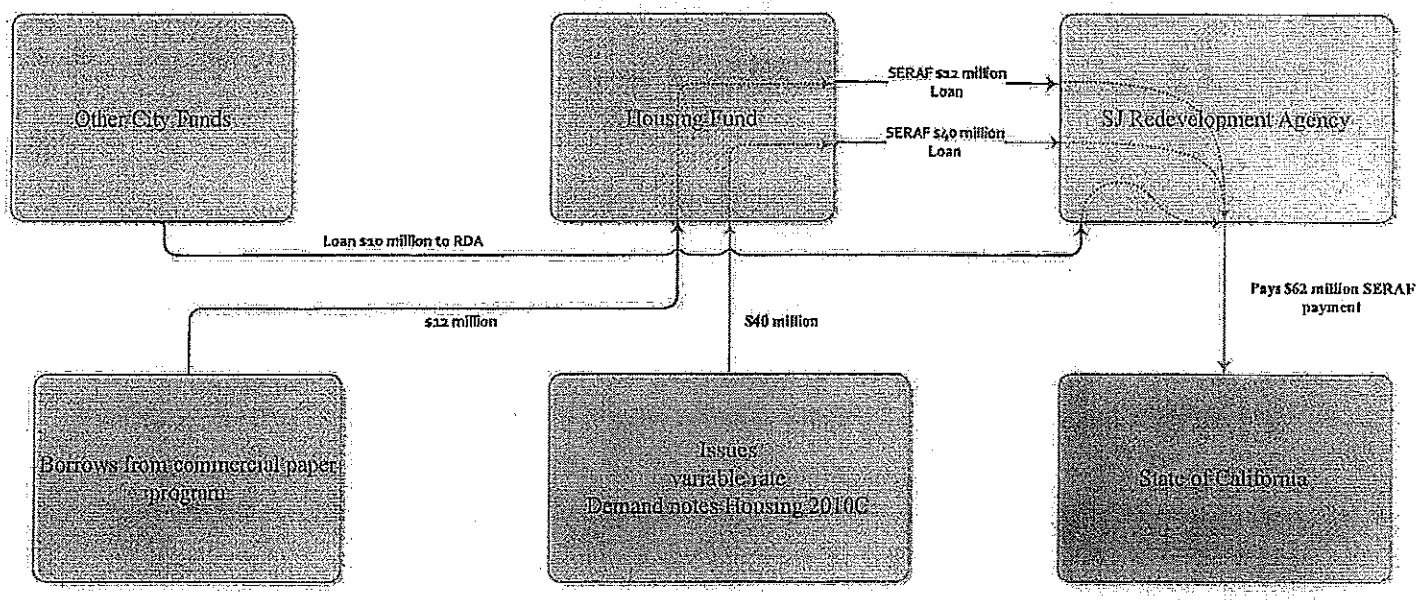
Exhibit E – Housing Asset Transfer List of August 1, 2012, Exhibit G Deferrals

Exhibit F – ROPS City Backup SERAF Loans #1 & #2

Exhibit G – Council Memo of February 12, 2010

EXHIBIT A–1

City of San Jose
2010-Detail of Sources for SERAF Payment to the State of $62 million



* Included "freeing up" cash for these loans to the RDA by backfilling funding of existing housing project with Loan proceeds per staff reports this was mandated by Lenders.

EXHIBIT A-2

City of San Jose 2010 Detail of Sources for $62 Million SERAF Payment to the State

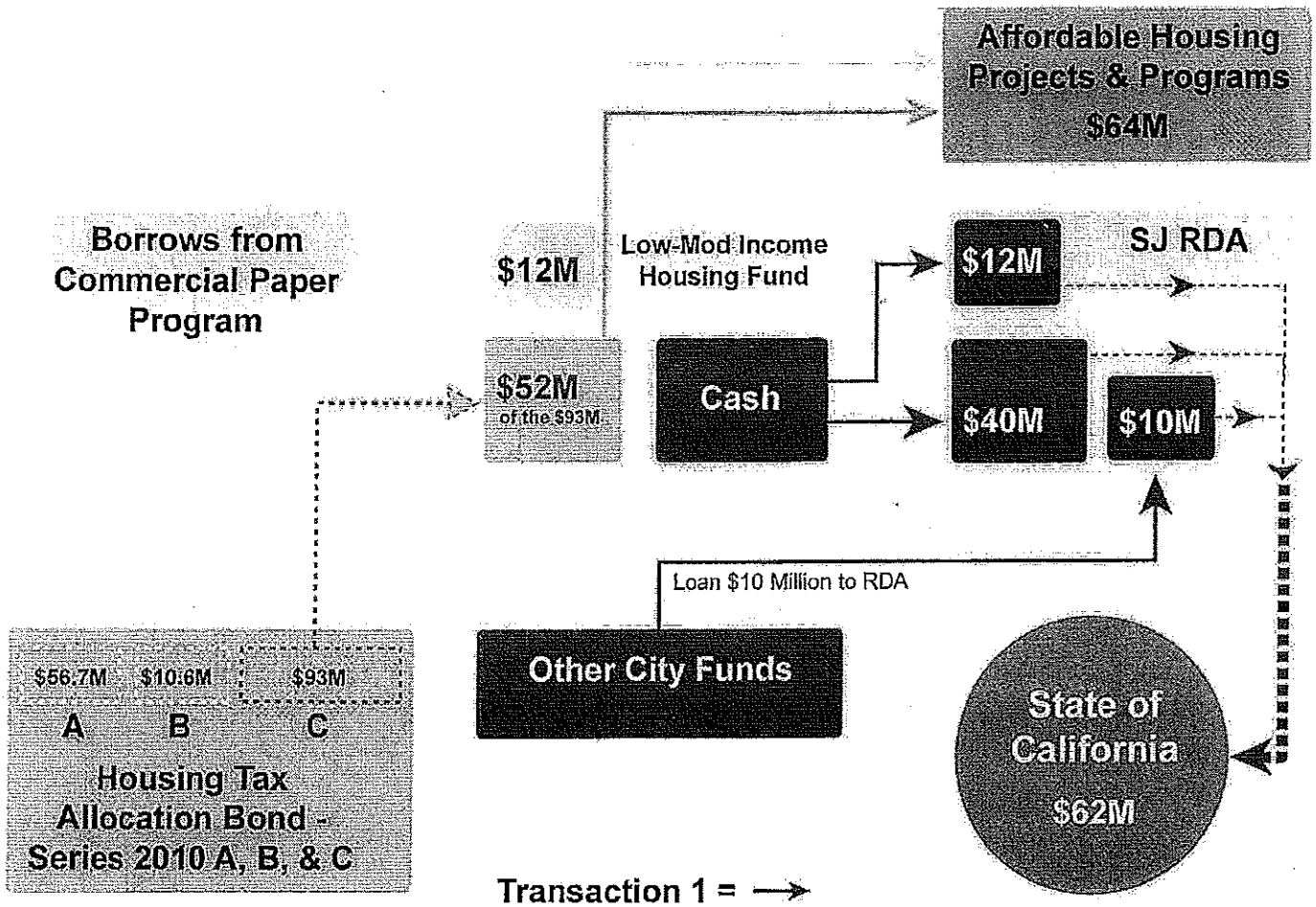


EXHIBIT B

Distributed on:

NOV 2 0 2009

by City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Debra Figone

SUBJECT: **Transmittal of Memo Responding to RDA Budget Document #11**

DATE: November 20, 2009

INFORMATION

Attached is a memorandum from Housing Director Leslye Krutko which 1) responds to questions posed by Councilmember Pyle and Councilmember Liccardo in RDA budget document #11 as well as 2) provides an overview of the efforts to date to evaluate options for paying for all or some of the RDA state take of $75 million by borrowing from 20% housing funds. I would like to convey to the Mayor and City Council the following key points:

1) The Housing Director and other members of the City Administration have been working diligently for quite some time with Agency staff to fully evaluate all options for borrowing Housing funds.
2) Although a full range of options from limited to maximum borrowing have been explored, the RDA and City staff have tried to develop borrowing scenarios which maintain some housing programs. The guiding principles referenced in the memorandum have been our administrative guide but do not dictate council policy decisions.
3) The extensive research and work to date has been with the assistance of the Housing and RDA financial advisor and has included discussions with some of the banks with whom the City has existing relationships. A snapshot of work and findings to date is provided. Information continues to evolve, including the impact of the legal analysis of the legislation which allows for housing borrowing. The final answer on any Council direction to borrow will be determined once the City formally accesses the credit markets. Only then will all required information regarding terms and impacts be known.
4) As I have stated repeatedly, these are challenging times. The Mayor and City Council have difficult policy decisions to make in resolving fiscal issues confronting both the City and RDA. The Administration will continue to work to ensure that the Mayor and City Council have the best information and policy advice we can provide in order to assist you to make informed decisions. My staff and I will continue to work collaboratively with the RDA to assist where needed.

Debra Figone
City Manager

SENT TO COUNCIL: ~~Distributed on:~~

NOV 2 0 2009

by City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: November 20, 2009

Approved

Date 11/20/09

INFORMATION

SUBJECT: AGENCY PROPOSED BUDGET—QUESTIONS REGARDING THE IMPACT OF THE BUDGET PROPOSAL ON THE CITY'S AFFORDABLE HOUSING PROGRAM

This Memorandum responds to questions posed by the Mayor and City Council, including those detailed in Councilmember Liccardo and Pyle's November 12th memorandum, regarding the proposal to use the City's Affordable Housing funds to pay for the $75 million State SERAF obligation. Per State legislation, the Agency must make a $62 million payment to the State by May 2010 and a $12.8 million payment by May 2011. The legislation allows for several options for making the SERAF payment, including using any legally available 80% funds, borrowing or suspending payment to the 20% Housing Fund, using any other available revenue sources.

The proposed Agency budget envisions two payments from the Housing Department to pay the State—a $40 million payment in the current fiscal year, and a $35 million payment in Fiscal Year 2010-11. As required by State law, any funds borrowed from the Affordable Housing Fund ("Housing Fund") must be repaid within five years. Therefore, the first year proposed borrowing of $40 million in FY 09-10 must be paid back by June 30, 2015 and the proposed second year borrowing of $35 million in FY 10-11 must be paid back by June 30, 2016. Should the funds not be paid back by these dates, the Low and Moderate Income Housing Fund will increase from the current 20% level to a 25% Fund.

It should be noted that an outstanding issue remains regarding how much the Agency can borrow more from the Housing Fund in the second year than the amount due to the State for the second year SERAF payment. The Agency proposes to borrow $35 million from the Housing Fund in Year 2 when the amount of the actual payment due from the Agency to the State is only $12.8 million. This issue would need to be resolved if the City Council were to take an action in Year 2 to borrow these funds from the Affordable Housing Fund.

Current Situation

Because of the nature of affordable housing construction, Housing Department ("the Department") funds are committed early in the life of the development and are typically drawn down over time as projects progress through construction (construction draws). As a result, the borrowing strategy for the Department in the past has been to draw on a line of credit, which is then taken out by a long-term bond issuance once the line of credit has been expended or committed to housing projects. This strategy has worked well for the affordable housing program as it achieved flexibility and efficiency by ensuring that funds are available when needed, and at lower short term borrowing costs. Once the line of credit was fully utilized, the long term bonds were issued; the line of credit was repaid and subsequently replenished for future use of new projects. This strategy has enabled the Department to issue long-term bonds only when needed and, in so doing, it has preserved future bonding capacity.

In October 2008, the Department's existing line of credit provider, the Bank of New York, chose to exit the municipal finance industry, including providing letters of credit and lines of credit. This decision affected the Department in two respects as Bank of New York also provides a letter of credit to secure approximately $56.7 million of variable rate demand bonds – that letter of credit expires in June 2010.

As a result of Bank of New York's pronouncement, the Department drew on the full line of credit, which then converted to a five-year term, low interest rate loan with $2.5 million quarterly principal payments ($10 million per year for 5 years). This payment now adds to the approximate $20 million in annual debt payments the Department makes on outstanding tax allocation bonds. The Department now spends $30 million of its $40 million (75%) in tax increment to cover annual debt service payments.

In April 2009, after the financial markets began to show signs of settling down, the Department assembled a financing team, comprised of staff from the Department, the Finance Department, the Redevelopment Agency, the City Attorney's Office, and financial advisors, to obtain a replacement line of credit for the City's affordable housing program. The team canvassed the universe of banks that provide credit facilities – a universe that had contracted significantly in the past few years in light of systemic financial meltdown. The only bank that was willing to engage in a conversation with respect to a replacement line of credit was Wells Fargo, who recently had become the City's depository bank. The other banks were not interested either because of their concern with redevelopment credit in general statewide and/or because they did not have an existing business relationship with the City. In the current banking market, banks typically will need to have both comfort with the credit and the opportunity to provide other banking services. However, after much analysis, Wells Fargo was not willing to provide a replacement line of credit because it would need to be paid ***after*** the debt service on the Department's existing obligations (including the Bank of New York term loan). As a result, and because all other available affordable housing cash has been committed to projects, the Department has not made new funding commitments since last Spring. As a result of the existing credit situation and its careful approach to issuing bonds in the past, the Department has borrowing capacity available.

Affordable Housing Pipeline

Attachment A details the affordable housing projects in the development pipeline that have been awaiting funds once the Department is able to secure a new line of credit. This chart details the amount of City funds requested, the amount of funds already spent by the developer on predevelopment activities, and the amount needed to purchase the site. Additionally, information on economic development and readiness is provided to show the estimated number of jobs that will be created, the amount of revenue the City will collect as a result, and how soon the development could begin construction.

Mechanics of Borrowing/Guiding Principles

In order to provide the City Council with the opportunity to make a policy decision regarding the loan of Affordable Housing funds to pay all or a portion of the SERAF payment, the financing team has been working on a strategy that could provide the needed funds. The Department has worked closely with internal partners and with its financial advisor to develop a successful borrowing strategy.

In structuring a potential borrowing, the Housing Department and Redevelopment Agency jointly agreed on basic guiding principles including:

1. Department would model a loan of $40 million in Year 1 and a loan of $35 million in Year 2 to the Agency to fund SERAF to mirror the Agency's proposed revised budget.
2. The Department's core programs of Housing Rehabilitation (emergency repairs, health and safety repairs), Mobilehome Rehabilitation, and the Teacher Homebuyer Program remain funded.
3. All current commitments as evidenced by City Council approval be honored (see Attachment B – List of Current Project Commitments)
4. The Markham Terrace project, which must be rebuilt due to HUD financing requirements, would be funded.

The strategy to accomplish both the goal of providing funding for the Agency to make the SERAF payment in accordance with the stated guiding principles would involve two separate borrowings. The costs to issue the bonds attributed to the SERAF payment for the five year period from issuance until the loan is repaid is estimated at $28 million (exclusive of the costs associated with refinancing the line of credit loan).

1. **Year 1 (FY 2009-10)** -- The Department would issue $50 million taxable variable rate bonds backed by a letter of credit bank. This approach would net approximately $45 million after issuance costs and reserves, and at the same time refinance the Department's $56.7 million in tax-exempt variable rate bonds to fixed-rate bonds. The $50 million is the amount of variable rate debt believed to be financially feasible and prudent for the Housing program and is consistent with the amount the Wells Fargo had been considering in connection with the line of credit deliberations. The benefits of this borrowing approach are multi-fold:

a. Flexible financing - unlike fixed rate debt, these bonds could be repaid at any time should the California Redevelopment Association (CRA) lawsuit challenging the SERAF payment be successful. If the lawsuit is successful, the bonds then could be repaid by the Agency's repayment of SERAF loan.
b. Low Cost Financing – This strategy takes advantage of lower variable rate interest rates; projected at 4.5% versus a range of 7.5% to 8.0% for fixed rate debt. In the current market, the variable interest rate is approximately 0.30% plus letter of credit fees.
c. Mitigates uncertainty and Benefits from ARRA - Refunds the Department's existing variable rate bonds with fixed rate bonds which have a letter of credit with Bank of New York expiring on June 2010. Benefits from a provision in the federal stimulus package that enables qualifying bonds to be issued on a fully tax-exempt basis rather than tax-exempt bonds subject to AMT (alternative minimum tax), thereby saving on interest costs. The bonds being refinanced from variable to fixed rate are the bonds eligible for the provision in the federal stimulus package.
d. Work Underway -- A financing team has already been working on this option.

1. **Year 2 (FY 2010 – 11)** -- The Department would seek to issue an estimated $75 - 80 million in taxable bonds, which would net $68 - 72 million. The proceeds would be used to repay the outstanding balance on the Department's existing line of credit loan with Bank of New York and provide funds for the proposed $35 million loan to the Agency for the SERAF payment.

The financing team considered several other options, including borrowing the full amount of the SERAF payment in Year 1. This option was not pursued, however, because it did not meet the guiding principles noted above and did not provide the benefits of the Year 1 variable rate borrowing. As detailed by the Department's financial advisor, the reasons why this is not practical or recommended include:

1. If the Department were to attempt a borrowing for the full $75 million in the first year, it would be necessary to borrow in excess of $125 million. A borrowing of this size would be required because the Department would need to repay its line of credit loan in order to have sufficient cash to cover the new debt service payment.
2. The borrowing would need to be completed on a fully taxable basis; a much more expensive strategy (an estimated 8%+ annually).
3. Bonds would not be able to be repaid should the CRA lawsuit be successful and given the size of the financing it would be difficult for the Department to spend these funds in an expedited manner, since funds are needed for construction draws over time. This increases the costs to the Department, as debt service must be paid on funds that are not drawn down.
4. Insufficient funds would be available to pay for the core Department programs listed above, or to pay for the development of the Markham Terrace project.
5. Department would be highly leveraged, which could potentially result in a rating downgrade and ultimately higher borrowing costs.

6. Untested strategy with potential bond buyers and it is unknown as to whether there would be sufficient interest from potential investors. A recent survey of taxable bond deals completed in 2009 shows that four California communities successfully issued fixed rate taxable tax allocation bonds this year. The particulars of these four deals included; largest issue was $75 million; longest maturity was 15 years; and the debt coverage ratios ranged from a low of 1.31x to a high of 3.78x. In this borrowing scenario, the Housing Department's bond issue would be larger, with a much longer maturity (30 years); and at a lower debt coverage ratio.

The financing team also looked at two other possible options:

1. A Two-Year Strategy If the Variable Rate Proposal Was Infeasible— This strategy would include the issuance of two fixed rate taxable bond issues, one in the current fiscal year that would net $40 million and one next fiscal year that would net $31 million.
2. Borrowing $62 million in Year 1 and $13 million in Year 2— With the increased size of the Year 1 borrowing (from $40 million to $62 million), it would be necessary to repay the line of credit loan in Year 1.

These options were not pursued because they proved to have the same shortfalls as the one-year borrowing strategy detailed above.

Financial Market Interest

To date, the financing team has not been able to find a bank willing to provide a letter of credit for a $50 million variable rate taxable bond issue if the bond proceeds were to be used to make SERAF payments. Wells Fargo Bank initially declined to participate if the funds were used to pay the State, but left the door open if the City instead wanted to borrow to fund affordable housing projects. Bank of America (BofA) declined to participate for either the SERAF or affordable housing purposes, citing concerns about the economy and the potential for a reduction in tax increment revenues.

The City has not approached other banks to provide a letter of credit, largely because BofA and Wells Fargo have established working relationships with the City and are familiar with the credit, discussions have been underway for nearly a year, and both banks have been disinterested in providing the letter of credit to date. As noted earlier, other banks are reluctant to extend credit for redevelopment agencies and in reality are not providing letter of credits to organizations where a prior business relationship does not exist.

The financing team has continued to discuss options with the Wells Fargo and BofA and address concerns they have raised. The most promising alternative under discussion with Wells Fargo Bank is a scenario where the City would proceed with issuing the $50 million in variable rate taxable bonds and refinance the existing variable rate bonds as taxable bonds, using the proceeds to fund affordable housing projects. The cash that is now committed to those projects could be freed up and made available to make the SERAF payment. Wells Fargo Bank is evaluating this

option, and current conversations have been cautiously optimistic. Wells Fargo has indicated, however, that they will need to have a complete understanding of what projects would be funded and how the Agency planned to address the State take prior to making any decision in order to ensure that bond proceeds were being used for housing projects. It also indicated that it may include a prohibition against the use of bond proceeds to fund SERAF directly. BofA is also reconsidering its initial decision and is considering additional security (e.g., loan repayments) to provide a higher comfort level for the bank. We expect to get additional feedback from both banks in the next couple of weeks.

It should be noted that the Agency anticipates issuing $30 million in bonds in the same timeframe as the proposed Housing Department borrowing. We will need to be cautious in how we coordinate the disclosures for the two borrowings and timing of the bond issues as to not to compete for the same set of investors and potentially confuse the market.

With respect to a Year 2 borrowing, no conversations have taken place with potential investors or credit providers. It is premature to do so although disclosure of future borrowing plans will need to be made in the offering documents and rating agencies for the Year 1 borrowing. The ability to borrow in the future in the projected amounts will be dependent on a number of factors: tax increment revenues, interest rates, and the investor's comfort with the debt coverage ratio (essentially how leveraged will the Department be) and the amount of projected loan repayments that help defray the Department's costs of administering its programs. If the Department were to borrow/finance the full $35 million as presented in the Agency's proposed budget, assuming no change in increment or market conditions, it would be highly leveraged. A highly leveraged position could lead to a potential reduction in the rating on Housing Tax Increment bonds, currently rated at A2/A/A, resulting in higher interest rates and a smaller investor base.

Impact on the Housing Program

If the City Council approves the two-year borrowing strategy presented by the Housing Department as outlined above, the Department would continue to administer its rehabilitation and first-time homebuyer programs as well as its grant programs and other important efforts (including foreclosure assistance and homeless prevention) assuming no change in tax increment. Additionally, the Department would continue to monitor its $600 million loan portfolio with 1,600 loans outstanding.

The two-year borrowing strategy would have a direct impact on the Housing Program's new construction program. New affordable housing construction projects require considerable subsidy. If the Agency were to borrow funds from the affordable housing program over the next two years, funds would not be available to make new commitments for affordable housing projects in the pipeline (as described above) and for the next five years (assuming the Agency's tax increment projections.) The Department estimates that approximately 1,000 affordable units would be delayed or lost due to the lack of funding.

Please see Attachment C, which outlines the Housing Department budget for the six-year period that includes the current fiscal year. This attachment includes tax increment funds as well as

other State and federal funds administered by the Department. Note that it is hard to predict funding in the out years, as much of the Department's funding is as a result of competitive funding applications and will be dependent upon monies available at the State level. (Much of the bond funding approved by Proposition 1C has been committed, so opportunities may depend on the State's effort to create a permanent source of funding for housing). We would expect that the Department would continue to be successful in obtaining additional funding for homeless programs, and for our rehabilitation and homebuyer efforts. There is not, however, other funding available to replace the monies for new construction efforts.

This is a very difficult time, with difficult choices that need to be made. The Housing Department has worked together with the financing team to seek funds that could be used to make the State payment. Clearly, the hope is that CRA wins its lawsuit and that it will be unnecessary to make the SERAF payment to the State. However, in the meantime, the funds must be set aside.

It is important for the Council to understand the implications of addressing the entire Stake take with the City's affordable housing funds. This memorandum is intended to provide the Council with the information necessary to make an informed policy decision in this regard.

Coordination

This memorandum was coordinated with the Finance Department, the Office of the City Attorney, and the Housing Department's financial advisor.

LESLYE KRUTKO
Director of Housing

For questions, please contact Leslye Krutko, Director of Housing, at 535-3851

Attachment A—Projects in the Housing Department's Development Pipeline

Financial Information	Total # of Units	City Funds Spent	Funds Requested	Developer Predev Money Spent	Land Purchased	Amt Needed to Purchase Land
2nd Street Studios – First Comm. Housing	134		13,235,000	1,165,181	no	4,100,000
Leigh Avenue – First Comm. Housing	64		6,335,000	691,404	no	2,660,700
Rosemary Seniors – ROEM	106	3,700,000	11,910,000	500,000	yes	N/A
Rosemary Family – ROEM	184	6,300,000	6,840,000	500,000	yes	N/A
Donner Lofts – Affirmed	156		12,233,384	700,000	no	3,995,000
Ford and Monterey – Eden Housing	95	7,000,000	6,500,000	350,000	yes	N/A
Japantown Seniors – First Comm. Housing	75		7,410,000	300,202	no	2,175,000
Willow Glen Woods – Satellite Housing	77	3,545,000	4,750,000	100,000	yes	N/A
Blossom Hill – Charities Develop.	152		22,365,000	350,000	no	8,250,000
2500 Senter – Charities Develop.	122		13,460,000	350,000	no	5,160,000
Park & Delmas – Midpeninsula Hsg.	85		8,500,000	25,000	no	4,000,000
Edenvale – Midpeninsula Hsg.	110		8,800,000	25,000	no	Donation
163 Baypointe – EAH	184	100,000	23,641,557	0	no	12,000,000
TOTALS	**1,544**	**$20,645,000**	**$145,978,941**	**$5,056,787**		**$42,340,700**

Economic Development and Readiness	Est. Construction Jobs	Est. Permanent Jobs	Est. City Fees and Taxes	Zoning	PD Permit	Start of Construction 6-12 mo	12-24 mo	24-36 mo
2nd Street Studios – First Comm. Housing	125	38	729,630	Y	Y	X		
Leigh Avenue – First Comm. Housing	60	18	348,480	Y	Y	X		
Rosemary Seniors – ROEM	99	30	577,170	Y	Y	X		
Rosemary Family – ROEM	278	70	1,001,880	Y	Y	X		
Donner Lofts – Affirmed	145	44	849,420	Y	Y	X		
Ford and Monterey – Eden Housing	134	36	517,275	Y			X	
Japantown Seniors – First Comm. Housing	70	21	408,375			X		
Willow Glen Woods – Satellite Housing	116	29	419,265				X	
Blossom Hill – Charities Develop.	141	43	827,640					X
2500 Senter – Charities Develop.	184	46	664,290					X
Park & Delmas – Midpeninsula Hsg.	128	32	462,825					X
Edenvale – Midpeninsula Hsg.	166	42	598,950					X
163 Baypointe – EAH	278	70	1,001,880	Y			X	
TOTALS	**1,924**	**519**	**$8,407,080**					

Attachment B-- Affordable Units - Estimated Completion Based on Housing Department Making $75 million Payment ($40 million in Year 1, $35 million in Year 2)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	TOTAL
Fairways at San Antonio (completed 8/09)	86						
Hillsdale Townhouses (est. completion 11/09)	48						
Corde Terra Seniors (est. completion 12/09)	201						
The Commons (Bill Wilson)		28					
Roundtable Drive Four-plexes		8					
Brookwood Family			84				
North 4th Street			100				
Cornerstone at Japantown			53				
Orvieto Family			92				
Belovida Seniors			180				
McCreery Courtyards				79			
90 Archer St.				42			
Markham Terrace				102			
Kings Crossing				92			
Family Shelter				35			
Total Number of Units Completed	335	36	509	350	0	0	1230

Attachment C—Housing Department Budget with SERAF Take of $40 Million in Year 1 and $35 Million in Year 2

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	TOTAL
New Construction	$64,759,868	$15,563,801	$9,085,000	$8,750,000	$8,259,353	$10,759,353	$117,177,375
Rehabilitation	$7,428,300	$5,500,000	$4,500,000	$4,500,000	$4,500,000	$4,500,000	$30,928,300
First Time Homebuyers	$20,965,000	$10,500,000	$4,000,000	$4,000,000	$4,000,000	$4,000,000	$47,465,000
Homeless Programs	$6,677,600	$4,606,600	$1,242,600	$1,242,600	$1,242,600	$1,242,600	$16,254,600
Grant Programs	$6,181,800	$2,203,000	$796,000	$796,000	$796,000	$796,000	$11,568,800
TOTAL	$106,012,568	$38,373,401	$19,623,600	$19,288,600	$18,797,953	$21,297,953	$223,394,075

EXHIBIT C

COUNCIL/SJFA: 04-20-10
ITEM: 2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL AND CITY OF SAN JOSE FINANCING AUTHORITY BOARD

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: April 8, 2010

Approved Deanna Santana

Date 4/9/10

COUNCIL DISTRICT: Citywide

SUBJECT: ACTIONS RELATED TO THE CITY OF SAN JOSE FINANCING AUTHORITY'S COMMERCIAL PAPER PROGRAM AND AMENDMENTS TO THE CITY OF SAN JOSE FINANCING AUTHORITY BYLAWS

RECOMMENDATION

It is recommended that the City Council adopt a resolution to:

a. Approve an amendment to the Amended and Restated Trust Agreement and authorize other related actions relating to the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program in order to allow issuance of Commercial Paper Notes to fund a loan to the Low and Moderate Income Housing Fund in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency, and to allow issuance of Commercial Paper Notes to fund advances to the City in the event there is a need to address unanticipated or seasonal cash flow deficiencies.

It is recommended that the City of San José Financing Authority Board:

a. Adopt a resolution to approve and authorize the execution of an amendment to the Amended and Restated Trust Agreement and authorize other related actions relating to the City of San José Financing Authority's Lease Revenue Commercial Paper Notes Program in order to allow issuance of Commercial Paper Notes to fund a loan to the Low and Moderate Income Housing Fund in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency and to allow issuance of

Commercial Paper Notes to fund advances to the City in the event there is a need to address unanticipated or seasonal cash flow deficiencies.

b. Adopt a resolution to amend and restate Resolution No. SJFA-1 in order to modify the City of San José Financing Authority's regular meeting schedule, to confirm the appointment of Authority officials, to adopt Amended and Restated Bylaws, and to update the reference to the Conflict of Interest Code, to clarify that members of the Governing Board of the City of San José Financing Authority are subject to the provisions of the Conflict of Interest Code of the City, adopted by the City Council on March 24, 2009 by Resolution No. 74837, as may be amended.

OUTCOME

Approval of these recommendations will allow the issuance of Commercial Paper Notes to fund a loan to the Low and Moderate Income Housing Fund in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency and allow issuance of Commercial Paper Notes to fund short term cash flow needs of the City. It will also authorize certain amendments related to the bylaws of the City of San José Financing Authority.

BACKGROUND

On January 13, 2004, the City Council and the City of San José Financing Authority Board (the "Authority Board") approved the implementation of a tax-exempt Lease Revenue Commercial Paper ("CP") Program to provide funding for certain projects related to the new City Hall, including an off-site employee parking garage, technology, furniture, equipment and relocation costs, and interim space planning costs. The total amount authorized to be issued under the CP Program at that time was $98.0 million.

On June 21, 2005, the City Council and the Authority Board approved the issuance of taxable CP Notes in order to increase the CP Program's flexibility with respect to a portion of the previously identified projects. The aggregate total amount authorized to be issued under the CP Program remained at $98.0 million.

On November 15, 2005, the City Council and the Authority Board approved the expansion of the CP Program to provide additional funding for the "Integrated Utility Billing, Customer Service and Performance Management System" (the "CUSP Project") and to expand the list of authorized uses to include the Central Service Yard Phase II Project and the demolition of the City's Main Yard.

At the time of the City Council/Authority Board approval of the expanded CP Program, approval was also received to authorize the Authority to have up to $116.0 million in CP Notes outstanding at any time. It was also contemplated that the City could at a future date authorize the issuance of CP Notes to provide funding for additional projects.

On May 22, 2007, the City Council and the Authority Board approved the issuance of CP Notes in an amount not to exceed $8.25 million to provide funding for capital enhancements to HP Pavilion which is owned by the City and operated by San Jose Arena Management under the Amended and Restated San Jose Arena Management Agreement.

At the January 13, 2004 joint meeting of the Authority Board and the City Council, the City Council conducted a public hearing in accordance with Government Code Section 6586.5 regarding the issuance of the CP Notes for the authorized projects. The City Council also conducted a public hearing in accordance with Government Code Section 6586.5 at the joint meetings of the City Council and the Authority Board on November 15, 2005 and May 22, 2007 when the City Council and the Authority Board approved additional projects and purposes for which CP Notes may be issued.

On October 21, 2008, the City Council and the Authority Board approved the issuance of CP Notes to refund bonds and other obligations of the City or the Authority pursuant to Government Code Sections 53570 et seq and 53580 et seq.

On December 8, 2009, the City Council and the Authority Board approved Amendment No. 2 to the Letter of Credit and Reimbursement Agreement extending the maturity date of the Letter of Credit to January 27, 2013 and amended certain provisions of the Letter of Credit and Reimbursement Agreement in connection with such extension.

On February 23, 2010, the City Council, the Authority Board, and the Redevelopment Agency Board (the "Agency Board") authorized execution of a loan agreement by and among the City, the Authority, and the Agency, including a loan to the Low and Moderate Income Housing Fund financed by the issuance of Commercial Paper Notes.

ANALYSIS

Overview

The CP Program utilizes a lease revenue financing structure. The City has leased to the Authority various City-owned facilities pursuant to a Site Lease (as amended, the "Site Lease"). The Authority subleased these same facilities back to the City pursuant to a Sublease (as amended, the "Sublease") in exchange for the rental payments which support repayment of the CP Notes. The facilities subject to the Site and Sublease are: the former City Hall, the Health Building, and the "C" and "E" parking lots located at the former City Hall site, the San José

Museum of Art, the Tech Museum, the Mexican Cultural Heritage Plaza, the former Martin Luther King Main Library, the Animal Care Center, Fire Station No. 1, the Mabury Yard and the South Yard.

The Authority issues the CP Notes under the Marks-Roos Local Bond Pooling Act of 1985 pursuant to an Amended and Restated Trust Agreement, between the Authority and Wells Fargo Bank, National Association (as amended and supplemented, the "Trust Agreement") and an Amended and Restated Issuing and Paying Agent Agreement between the Authority and Wells Fargo Bank, National Association. Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The CP Notes are backed by a Letter of Credit ("LOC") issued by State Street Bank and Trust Company and the California State Teachers' Retirement System (together, the "Banks"), pursuant to the Letter of Credit and Reimbursement Agreement (as amended, the "Letter of Credit Agreement"). Per the terms of the Letter of Credit Agreement, the Banks are not jointly responsible for payments on the draws made on the Letter of Credit. The respective obligations of the Banks are: State Street Bank -- 75% and the California State Teachers' Retirement System -- 25%. The current Letter of Credit Agreement between the Authority and the Banks expires on January 27, 2013.

Third Supplement to the Amended and Restated Trust Agreement

The proposed amendments to the Amended and Restated Trust Agreement will allow the issuance of Commercial Paper Notes for the purpose of funding a loan to the Low and Moderate Income Housing Fund (the "Low-Mod Housing Fund") in an amount not to exceed the amount specified in a loan agreement by and among the City, the Authority, and the Redevelopment Agency and to allow issuance of Commercial Paper Notes to fund advances to the City to address the City's unanticipated or seasonal cash flow needs.

The form of the proposed Third Supplement to the Amended and Restated Trust Agreement will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about April 9, 2010. Staff recommends that the Executive Director of the Authority or the Executive Director's designees (the "Authority Designated Officers") be authorized to execute these amendments as posted, on behalf of the Authority, as applicable, with such modifications as the Authority Designated Officers determines to be desirable or appropriate, upon consultation with the City Attorney. Staff also recommends that the changes to the Third Supplement to the Amended and Restated Trust Agreement from the posted draft be subject to the approval of the City Manager or the Assistant Director of Finance or their designees (the "City Designated Officers") upon consultation with the City Attorney.

Low-Mod Housing Fund

The Low-Mod Housing Fund is established under and pursuant to the Community Redevelopment Law and is administered by the City. The loan agreement was authorized by the City Council, the Agency Board and the Authority Board at their joint meeting on February 23, 2010. As stated in the February 23, 2010 Council Memorandum, the Authority will issue CP

8/14/12 Per City Staff:
2010 Anticipated $12m
2011 Anticipated $13m
$25m

Notes in an amount sufficient to fund $25 million of low and moderate income housing program activities and the associated capitalized interest and fees over the term of the loan. The total issuance amount is estimated at $34 million but the actual issuance amount may vary depending on the financial market conditions over the term of the loan.

The loan proceeds will be utilized to fund low and moderate income housing activities, which include, but are not limited to, affordable multi-family housing projects, loans for housing rehabilitation, teachers' and other homebuyers housing loans and Low-Mod Housing Fund administrative costs. Staff expects that the Commercial Paper Notes issued for the loan to the Low-Mod Housing Fund will be fully repaid over six years. The proposed amendment to the Amended and Restated Trust Agreement will permit the City to continue these critical housing programs that are part of the City's strategic plan to promote economic development within the City.

There are several benefits associated with using the CP Program to fund affordable housing activities, including the relative low cost of the program (e.g. the all-in cost for the most recent CP Notes sale in March 2010 was approximately 2%), market demand for high quality CP Notes, and matching of funding date to the actual issuance of the CP Notes which minimizes actual interest expense.

City Cash Flow Financing

To help facilitate better cashflow management for the City, short term interim financing may be needed due to the timing gap between when the City receives revenues versus when the City is required to make payments of its obligations. The proposed amendments would allow the Authority to issue CP Notes to meet short term cash flow needs of the City, if required, in amounts approved by the City Council and Authority Board. There are no immediate plans to use CP Notes for cashflow financing needs of the City, however, executing the amendment at this time provides the most flexibility to use CP Notes if an unanticipated or seasonal cash flow gap occurs. A seasonal cash flow gap arises when the City's expenditures exceed its revenues due to the timing of the receipt of the City's major revenue sources such as property tax revenues. Public agencies frequently issue tax and revenue anticipation notes in order to cover this gap due to the timing of its receipts. The proposed amendments would allow the City to issue CP Notes instead of tax and revenue anticipation notes when staff's analysis indicates that issuing CP Notes would be more advantageous to the City than the issuance of tax and revenue anticipation notes.

Amended and Restated Resolution No. SJFA-1

On December 15, 1992, the Authority Board adopted Resolution No. SJFA-1 which among other things, established the time and place of regular meetings of the Authority as the second Tuesday of August at 1:30 p.m., adopted the Bylaws of the Authority, and adopted a Conflict of Interest Code.

Effective January 1, 2010, State law requires that a joint powers authority, such as Authority approve issuance of debt at a regularly scheduled meeting. Since the current meeting schedule would limit the Authority's ability to issue debt to a single meeting, staff proposes that the Authority's meeting schedule be revised in order to provide the City and the Authority with flexibility regarding the timing of the Authority's issuance of debt.

The proposed resolution amending and restating Resolution No. SJFA-1 modifies the regular meeting schedule of the Authority Board to coincide with the meetings of the City Council. Accordingly, the meetings of the Authority Board will be held at the same time and at the same location as the regular meetings of the City Council or such other place as the Authority Board may designate from time to time; provided that if there is no business of the Authority Board to transact at such meeting, the meeting will be cancelled.

The proposed resolution also confirms the appointment of Authority officials and adopts the Amended and Restated Bylaws (a copy of which is attached to the resolution) and updates the reference to the Conflict of Interest Code to clarify that that members of the Governing Board of the City of San José Financing Authority are subject to the provisions of the Conflict of Interest Code of the City, adopted by the City Council on March 24, 2009 by Resolution No. 74837, as may be amended.

Financing Team Participants

The financing team participants consist of:

City's Financial Advisor:	Public Resources Advisory Group
Bond Counsel:	Jones Hall
Letter of Credit Banks:	State Street Bank and Trust Company California State Teachers' Retirement System
Bank Counsel:	Fulbright & Jaworski
Trustee/Issuing and Paying Agent:	Wells Fargo Bank

EVALUATION AND FOLLOW-UP

This memorandum presents the set of recommendations related to the City Council and the Authority's approval of various actions related to the City of San José Financing Authority Lease Revenue Commercial Paper Program and amendments to the bylaws of the Authority and requires no follow-up to the City Council or the Authority Board. No additional evaluation or follow up is necessary.

PUBLIC OUTREACH/INTEREST

The form of the proposed amendment will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about April 9, 2010.

☒ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This report was prepared by the Finance Department in coordination with the Department of Housing and the City Attorney's Office.

COST SUMMARY/IMPLICATIONS

Compensation for the City's consultants (financial advisor, bond counsel and bank counsel) and other related costs will be paid from CP Note proceeds. There is no budgetary impact to the amortization of principal and repayment of interest and fees for the CP Program for FY 2009-10. The interest and fees incurred for the CP Program are capitalized and allocated on a pro-rata basis for each of the projects funded by the CP Program. The annual debt service schedule is calculated based on the specific repayment terms of each project as approved by City Council and the Authority Board.

The budget appropriation actions related to the loan to the Low-Mod Housing Fund are included in a separate Council Memorandum agendized for City Council approval on April 20, 2010.

CEQA

Not a project.

/s/
JULIA HARPER COOPER
Assistant Director of Finance

For questions, please contact Arn Andrews, Treasury Division Manager, Finance, at (408) 535-7041.

2/23/2010

ORIGINAL

LOAN AGREEMENT BY AND AMONG THE CITY OF SAN JOSE, THE CITY OF SAN JOSE FINANCING AUTHORITY AND THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND

This Loan Agreement ("Agreement") is made and entered into this 23rd day of February, 2010, by and among the City of San Jose, a municipal corporation ("City"), the City of San Jose Financing Authority, a public body, corporate and politic, duly organized and existing under the laws of the State of California ("Authority"), and The Redevelopment Agency of the City of San Jose, a public body, corporate and politic ("Agency").

RECITALS

WHEREAS, the Agency is presently engaged in redevelopment activities in various redevelopment project areas; and

WHEREAS, the City and Agency entered into that certain Cooperation Agreement, dated September 28, 1990, pursuant to which the Agency delegated to the City the administration of the Low and Moderate Income Housing Fund ("Low-Mod Housing Fund"), into which 20% of gross tax increment collected by the Agency is deposited pursuant to the California Community Redevelopment Law ("CRL"); and

WHEREAS, on July 29, 2009, the Governor signed the State budget, including AB4x26 which requires redevelopment agencies in the State make payment to a Supplemental Educational Revenue Augmentation Fund ("SERAF"), and

WHEREAS, the Agency's SERAF obligation is $62,247,530 in FY 2009-2010 and approximately $12.8 million in FY 2010-2011; and

WHEREAS, AB26x4 and subsequent clarifying legislation, allows the Agency to make its SERAF payments with funds borrowed from the Low-Mod Housing Fund, as long as the Agency finds that there are insufficient other moneys to meet the SERAF payment requirement, and such borrowed funds are repaid within five years from date of borrowing; and

WHEREAS, on February 23, 2010, the Agency's Board made the finding that the Agency has insufficient moneys other than from the Low-Mod Housing Fund to make its SERAF payment in FY 2009-10; and

WHEREAS, AB26x4 also allows redevelopment agencies to make the SERAF payment with any other funds that are legally available and not legally obligated for other uses, including but not limited to proceeds of bonds or other indebtedness; and

WHEREAS, on February 23, 2010, the Agency Board and City Council found that due to insufficient other monies, the Agency would need to pay the SERAF, in part, with funds borrowed from the Low-Mod Housing Fund and approved a plan to finance the SERAF payments through a loan from the Low-Mod Housing Fund, and from the idle moneys of certain City special funds; and

WHEREAS, also on February 23, 2010, the City Council, the Board of Directors of the City of San Jose Financing Authority, and Agency Board authorized their City Manager, the Authority Executive Director, and Executive Director of the Agency to negotiate and execute this loan agreement, to provide funds to the Agency for the purpose of making the SERAF payments; and

WHEREAS, this loan constitutes indebtedness of the Agency under the California Redevelopment Law.

The City, Authority and Agency hereby agree:

A. FINANCING AUTHORITY LOAN TO HOUSING FUND.

1. Initial Loan Amount. Upon execution, and subject to the terms of this Agreement, the Authority agrees to make and the City agrees to accept a loan in the amount of $25,000,000.00 (the "Initial Loan Amount") to be paid in two installments as follows:

   a. First installment in the amount of $12,000,000 by May 10, 2010.

   b. Second installment in an amount not to exceed $13,000,000 by May 10, 2011.

2. Additional Loan Amounts. Throughout the term of this Agreement, the Authority will make additional funds available to the City as needed to replenish the Low-Mod Housing Fund for draws made to pay Associated Costs as defined in Paragraph A. 5 below. Such additional funds are estimated to be approximately $9,000,000 ("Additional Loan Amount"). The Initial Loan Amount, together with the Additional Loan Amounts, is referred to as the "Authority Loan".

3. Use of Loan Proceeds. The City shall deposit the Authority Loan proceeds into the Low-Mod Housing Fund, and shall use the proceeds only to fund low and moderate income housing activities, which include, but are not limited to, the development of affordable multi-family housing projects, loans for housing rehabilitation, teachers' housing loans and other eligible homebuyers' housing loans and eligible Low-Mod Housing Fund administrative costs. In the event that the SERAF payment is no longer required to be made by the Agency, due to either a change in

legislation or by a final order of a court of competent jurisdiction ("Change in Law"), then the Authority will not be obligated to make any installment of the Loan following the effective date of such Change in Law.

4. Sources of Loan Proceeds. The Authority shall issue City of San José Financing Authority's Lease Revenue Commercial Paper Notes in the amounts required to provide proceeds to make the installments set forth in paragraph 1.a and b. above.

5. Repayment Obligations.

a. The City shall repay the Authority, from the Low-Mod Housing Fund, the principal amount of the Authority Loan, which includes Associated Costs, consisting of the following:

i. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority Commercial Paper issued pursuant to this Agreement.

ii. Interest at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes remain outstanding.

iii. Fees to the City for loan origination and annual compliance.

b. The City's obligation to repay the Authority Loan from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below.

B. SERAF LOANS TO AGENCY.

1. Loan Amount. Upon execution, and subject to the terms of this Agreement, the City agrees to make and the Agency agrees to accept two loans from the City in the combined amount of $75,000,000. The two loans are described in detail below as the Low Mod Loan and the InterFund Loan.

2. Timing of Loan.

a. The first installment of the SERAF Loans shall be delivered to the Agency in the amount of $62,000,000, in sufficient time for the Agency to make the first SERAF payment, on May 10, 2010.

b. The second installment of the SERAF Loans shall be delivered to the Agency in an amount not to exceed $13,000,000, in sufficient

time for the Agency to make the second SERAF payment, in the same amount, on May 10, 2011.

3. Use of Loan Proceeds. The Agency shall use the proceeds of the SERAF Loans only for the purpose of making SERAF payments as required by law. In the event that the payment is no longer required to be made by the Agency, due to either a change in legislation or by final order of a court of competent jurisdiction, then the City will not be obligated to make the Low-Mod Loan.

4. Sources of Loan Proceeds.

   a. The Low-Mod Loan will be funded from the following funding sources:

      i. Low and Moderate Income Housing Fund. The Low-Mod Housing Fund will be the source of $52,000,000 of the funding for the May 10, 2010 installment, and up to $13,000,000 for the May 10, 2011 installment. In order to assure that it has available funding to make this Loan, and to continue to provide an affordable housing program, the Low-Mod Housing Fund will need to borrow from the following sources:

         (a) Housing Bond: Issuance of Redevelopment Agency of the City of San Jose Merged Area Redevelopment Project Taxable Subordinate Housing Set Aside Tax Allocation Variable Rate Bonds, Series 2010C (the "Housing TABs") of which $40,000,000 is allocated to the Low-Mod Fund.

         (b) Authority Commercial Paper: Issuance of City of San José Financing Authority's Lease Revenue Commercial Paper Notes in an amount required to net a total of $25,000,000 is allocated to the Low Mod Fund.

   b. The InterFund Loan. Idle moneys in the following special funds of the City will be the source of the $10 million Inter Fund Loan for the May 10, 2010 SERAF installment:

      i. Subdivision Park Trust Fund - $3 million;

      ii. Sewage Treatment Plan Connection Fee Fund - $5 million; and

iii. Ice Centre Revenue Fund - $2 million.

5. Repayment Obligations- Low Mod Loan.

a. The Agency shall repay the City, from any unrestricted funds legally available to the Agency (e.g. proceeds from taxable bonds, but not tax exempt bonds), the principal amount of the Low-Mod Loan, plus Associated Costs, which consist of the following:

i. Costs associated with the Housing TABs related to this Loan ($40,000,000 in proceeds) for as long as the Housing TABs related to this Loan remain outstanding, including prorated issuance costs of $215,700; and ongoing bank fees and third party administrative costs prorated based on $40,215,700 (principal plus cost of issuance).

ii. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority's Commercial Paper Notes issued to fund the loan to the Low-Mod Fund, for as long as these Notes related to the Loan remain outstanding.

iii. Interest on the portion of the Loan allocated to the Housing TABs at the actual rate paid by the Low-Mod Fund on the Housing TABs for as long as the Housing TABs related to this Loan remain outstanding.

iv. Interest on the portion of the Loan allocated to the Authority Commercial Paper Notes at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes related to this Loan remain outstanding.

v. Interest revenues earned from funds on deposit with the City associated with this Loan shall be netted against the Associated Costs.

vi. The parties acknowledge that the Housing TABs and the Commercial Paper Notes have flexible maturities that are callable upon a relatively short notice period. Upon 30 days notice from the Agency that it intends to prepay any portion of the Low Mod Loan, City shall defease that amount of debt from either the Housing TABS or the Commercial Paper Program at the earliest call date, provided that the minimum amount to be defeased at any one time shall be $500,000.

Agency shall remain liable for all Associated Costs until the earliest date the City is able to effectuate the defeasance.

In the event that the Agency prepays a portion of the Low Mod Loan but the City chooses not to defease an equal amount of debt at the earliest call date, the Agency shall be relieved of the Associated Costs related to that portion of the debt that the City chose not to defease.

b. The Low Mod Loan must be repaid in full by the dates specified below:

i. $52,000,000 and Associated Costs due by June 30, 2015

ii. Actual principal amount not to exceed $13,000,000 and Associated Costs due by June 30, 2016

c. City shall invoice and Agency shall pay Associated Costs on a quarterly basis each August 1, November 1, February 1, and May 1, commencing August 1, 2010, provided that, to the extent such payments are not made by the Agency on a current basis, the amounts due and not paid shall be added to the principal balance owed.

d. The Loan is callable, in whole or in part, to the extent necessary at the discretion of the City Council, without penalty, under the following circumstances:

i. The Letter of Credit providing liquidity for the Authority Commercial Paper Notes is not renewed, or the Commercial Paper Notes are tendered back to the Authority, or any other circumstance that results in the immediate redemption of the Commercial Paper Notes;

ii. The credit facility providing liquidity for the Housing TABs is not renewed, or the TABs are tendered back to the Agency, or any other circumstance that results in the immediate redemption of the TABs.

6. Repayment Obligations- InterFund Loan.

a. The Agency shall repay the City, from any unrestricted funds legally available to the Agency (e.g., proceeds from taxable bonds, but not tax exempt bonds), the $10,000,000 principal amount of the InterFund Loan, plus Associated Costs.

b. For the purposes of the InterFund Loan, Associated Costs consist of interest on the InterFund Loan calculated at the City investment pool rate earned for each of the years the loan remains outstanding.

c. The InterFund Loan shall be due on or before June 30, 2015.

d. The InterFund Loan is callable, in whole or in part, to the extent necessary at the discretion of the City Council, without penalty, under the following circumstances:

i. The capital needs of the Subdivision Park Trust Fund, the Sewage Treatment Plant Connection Fee Fund, or the Ice Centre Revenue Fund require replenishment.

ii. Funds are required to refund developers from the Subdivision Park Trust Fund in the event that such refunds are required by state law.

7. Loan Fees. The Agency shall also pay fees to the City as follows:

a. A onetime loan origination fee in the amount of $375,000, which is 0.50% (1/2 of 1%) of the combined principal amount of $75,000,000, and is payable by May 10, 2010. The purpose of this fee is to reimburse the City for the resources utilized to develop, analyze and implement the SERAF Loan funding components;

b. An annual loan administration and monitoring fee of $187,500, which is 0.25% of the original principal amount of the Loan for each year the SERAF Loans remain outstanding.

8. Prepayment.

a. The Agency may prepay all or a portion of the SERAF Loans, without penalty, at any time. In the event of such prepayment, the provisions of Section 6.5.a.vi. shall apply.

b. The Agency shall prepay a portion of the SERAF Loans if, at any time during the term of the Loans, the Agency issues new money San Jose Merged Area Tax Allocation Bonds in excess of $33 million. The amount of the SERAF Loan to be prepaid shall be determined by the City Council and Agency Board at the time of the issuance of such Bonds, based on the circumstances at the time.

9. Change in SERAF Obligation. In the event that the Agency no longer has the legal obligation to make or to have made the SERAF payment, as the result of a Change in Law, the following alternative actions shall be taken:

a. If such Change in Law occurs prior to May 10, 2010, and the City has not made the First Installment of the SERAF Loan, Agency shall within 30 days of receipt of an invoice from the City, repay the City Associated Costs incurred as of the date of the Change in Law.

b. If such Change in Law occurs prior to May 10, 2010, and the Agency has received the First Installment of the SERAF Loan, but has not yet made the SERAF payment, the Agency shall immediately relinquish the First Installment of the SERAF Loan to the City and shall within 30 days of receipt of invoice from the City, repay the City Associated Costs incurred as of the date of the Change in Law.

c. If such Change in Law occurs after the Agency has made one or both of the SERAF payments, the Agency shall repay to the City the principal amount of the SERAF Loan then outstanding, within 30 days from the date on which the Agency receives its refund of its SERAF payment(s). The Agency shall pay Associated Costs incurred as of the date of the Change in Law within 30 days of receipt of invoice from the City.

d. If an interim order by a court of competent jurisdiction stays the SERAF payment prior to May 10, 2010, the City shall hold the May 10, 2010 Installment of the Low Mod Loan in escrow until such time as a final court order regarding the SERAF payment is issued. If the Commercial Paper Notes have not yet been issued, the City will delay the issuance of the Commercial Paper Notes until the parties agree as to the best course upon the issuance of a final Court order.

10. Consequence of Non Repayment. The parties acknowledge that Agency's failure to repay the principal amount of the Low-Mod Loan in full on the repayment dates set forth in Paragraph B.5.b. above, will trigger an increase in the percentage of housing set-aside tax increment as required by Sections 33690 and 33690.5 of the Redevelopment Law.

11. Priority of Repayment. The City will determine the allocation of the proceeds of repayment of the SERAF Loans based upon the circumstances at the time of repayment, with priority consideration given to repayment of the Low-Mod Loan within the statutory timeframes required by California Health and Safety Sections 33690 and 33690.5.

12. Agency Asset for Lease. The parties acknowledge that the Authority's Commercial Paper Program is secured by lease payments on various City-owned facilities. From time to time, the City may need to substitute such facilities with other assets. At City's request, Agency agrees to take all actions necessary to make available the California Theater as a substitute asset for the Authority's Commercial Paper Program.

C. MISCELLANEOUS.

1. Notice. All notices, requests and other communications provided for hereunder shall be in writing, delivered addressed as follows:

To the City:

Scott Johnson, Director
City of San Jose
Department of Finance
200 E. Santa Clara Street, 13th Floor Tower
San Jose, CA 95113

Leslye Krutko, Director
City of San Jose
Housing Department
200 E. Santa Clara Street, 12th Floor Tower
San Jose, CA 95113

To the Agency:

David Baum
Director of Finance
Redevelopment Agency of the City of San Jose
200 E. Santa Clara Street, 14th Floor Tower
San Jose, CA 95113

2. No Third Party Beneficiaries. No person or entity, other than the City, Authority and the Agency, shall have any right of action under this Loan Agreement.

3. Time. Time is of the essence in this Agreement.

4. Amendments. Amendments to this Agreement shall be effective only upon the mutual agreement in writing of the parties hereto.

5. Severability. If any provisions of this Agreement are held invalid, the remainder of this Agreement shall not be affected hereby, if such remainder would then continue to conform to the terms and requirements of applicable law.

6. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

7. Implementation.

   a. City will provide the Agency annually as part of the Agency's budget development process estimated annual interest and associated costs. After the end of each fiscal year, the City will provide the Agency a reconciliation of budgeted interest and associated costs to actual interest and associated costs.

   b. Attachment A-1 sets forth a Proforma SERAF Loan Repayment Schedule. Attachment A-2 set forth a Proforma Schedule of Fees and Interest on the SERAF Loans. These Proformas are for illustration purposes only subject to change depending on timing of actual repayment amounts from the Agency and actual interest and fees accrued over the term of the loan.

Executed by the City, Authority and Agency on the day and year first above written.

CITY OF SAN JOSE

Approved to form:

Chief Deputy City Attorney

Debra Figone
City Manager

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Approved to form:

Chief Deputy General Counsel

Harry S. Mavrogenes
Executive Director

THE CITY OF SAN JOSE FINANCING AUTHORITY

Debra Figone
Executive Director

Attachment A-2

SERAF SCHEDULE OF FEES AND INTEREST (PROFORMA)[1]

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Taxable Interest Rate[2]	2.66%	2.90%	5.05%	5.05%	5.05%	5.05%	5.05%

Loan Origination Fee[3]: $375,000 (one time fee)
Annual Loan Monitoring Fee[3]: $187,500 (annual fee)

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Total
Loan Origination Fee	375,000	0	0	0	0	0	0	375,000
Loan Monitoring Fee	31,250	187,500	187,500	187,500	187,500	187,500	187,500	1,156,250
TABs Interest[4]	172,000	1,166,000	2,031,000	2,031,000	2,031,000	2,031,000	0	9,462,000
CP Banking Fees[5]	136,000	544,000	544,000	544,000	544,000	544,000	544,000	3,400,000
CP Interest[6]	20,000	359,000	1,061,000	1,193,000	1,260,000	1,233,000	0	5,126,000
Total Interest & Fees (rounded)	734,250	2,256,500	3,823,500	3,955,500	4,022,500	3,995,500	731,500	19,519,250

Notes:

1. The interest rates and fees included in this proforma are for illustration purpose. The actual interest and fees may vary depending on financial market factors that affect interest rates, liquidity, competition, demand, and other global macro and micro economic factors, in addition to the City's financial management policies and budgeting practices.

2. Taxable interest rate assumption per the 2010-15 General Fund Debt Service Projection. This is a projection of the all in interest rate which includes all third party fees associated with the credit facility. The interest rate assumptions are subject to periodic adjustment by the City's Finance Department to reflect the then current market conditions through the City's Budget process.

3. The one-time loan origination fee is equal to 0.50% of the $75 million principal.
   The annual loan monitoring fee is equal to 0.25% of the $75 million principal.

4. Estimated TABs interest allocation based on $40,215,700 gross proceeds for SERAF Loan ($40M par + $215.7K cost of issuance) out of total proceeds of $93M for HSA TABs Series 2010C (43.24%).

5. CP Banking Fees estimate is based on 1.60% for $34 million capacity utilization. Subject to change based on third party agreements with the City.

6. CP Interest estimate is equal to the all in taxable interest rate less 1.60% estimated banking fee noted above (note 5). For example, for FY 2010-11, the estimated CP interest rate is 1.30%, which is equal to the 2.90% estimated all in interest rate less 1.60% for the estimated banking fees.

Attachment A-1

SERAF LOAN REPAYMENT PROFORMA[1]

Source of Repayment: The Redevelopment Agency's repayment to the City shall be from any legally available unrestricted funds on deposit with the Agency.

Initial Principal[2]: $75,000,000 ($10M Inter-Fund Loan + $65M Housing Fund Loan)

Agency Repayment Obligations

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Total
SERAF Loans								
Beginning Balance	0	62,768,250	78,150,750	82,137,250	84,358,750	80,649,450	12,064,850	0
Principal								
Housing Loan[3]	52,000,000	13,000,000	0	0	0	0	0	65,000,000
Inter-Fund Loan	10,000,000	0	0	0	0	0	0	10,000,000
Interest & Fees[4]								
Housing Loan	734,250	2,256,500	3,623,500	3,955,500	4,022,500	3,956,500	731,500	19,519,250
Inter-Fund Loan	34,000	126,000	163,000	266,000	360,000	308,000	321,000	1,598,000
Repayments[5]	0	0	0	(2,000,000)	(8,111,800)	(72,888,100)	(13,117,350)	(96,117,250)
Ending Balance	62,768,250	78,150,750	82,137,250	84,358,750	80,649,450	12,064,850	0	0

Notes:

1. The SERAF Loan Repayment Proforma is provided for illustration purpose, subject to change depending on timing of actual repayment amounts from the Agency and actual interest and fees accrued over the term of the loan.
2. Initial principal loan amount is expected to increase by the accrued interest and fees.
3. Housing Fund Loan Principal due in two installments: $52 million due on or prior to June 30, 2015 and $13 million due on or prior to June 30, 2016. Failure to meet these dates will trigger an increase in the percentage of housing set-aside tax increment as required by Sections 33690 and 33690.5 of the Redevelopment Law.
4. Estimated annual SERAF Loan Interest & Fees. Actual interest and fees to be accrued annually based on actual rates (see Attachment A-2).
5. Projected Repayments per Agency 2009-10 Budget & 2010-15 CIP approved by Agency Board on February 23, 2010.

FIRST AMENDMENT TO LOAN AGREEMENT BY AND AMONG THE CITY OF SAN JOSE, THE CITY OF SAN JOSE FINANCING AUTHORITY AND THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE RELATED TO THE SUPPLEMENTAL EDUCATION REVENUE AUGMENTATION FUND

This First Amendment to Loan Agreement ("First Amendment") is made and entered into this 10th day of May, 2011, by and among the City of San Jose, a municipal corporation ("City"), the City of San Jose Financing Authority, a public body, corporate and politic, duly organized and existing under the laws of the State of California ("Authority"), and The Redevelopment Agency of the City of San Jose, a public body, corporate and politic ("Agency").

RECITALS

WHEREAS, the Agency is presently engaged in redevelopment activities in various redevelopment project areas; and

WHEREAS, on July 29, 2009, the Governor signed the State budget, including AB4x26 which requires redevelopment agencies in the State make payment to a Supplemental Educational Revenue Augmentation Fund ("SERAF"), and

WHEREAS, the Agency's SERAF obligation is $62,247,530 in FY 2009-2010 and approximately $12,815,668 in FY 2010-2011; and

WHEREAS, AB26x4 and subsequent clarifying legislation, allows the Agency to make its SERAF payments with funds borrowed from the Low-Mod Housing Fund, as long as the Agency finds that there are insufficient other moneys to meet the SERAF payment requirement, and such borrowed funds are repaid within five years from date of borrowing; and

WHEREAS, on February 23, 2010, the Agency Board and City Council found that due to insufficient other monies, the Agency would need to pay the SERAF, in part, with funds borrowed from the Low-Mod Housing Fund and approved a plan to finance the SERAF payments through a loan from the Low-Mod Housing Fund, and from the idle moneys of certain City special funds; and

WHEREAS, also on February 23, 2010, the City Council, the Board of Directors of the City of San Jose Financing Authority, and Agency Board authorized the City Manager, the Authority Executive Director, and Executive Director of the Agency to negotiate and execute a loan agreement, to provide funds to the Agency for the purpose of making the SERAF payments; and

WHEREAS, on May 6, 2010 the City, Authority and Agency entered into the Loan Agreement which anticipated that the Authority would issue commercial paper prior to the due date for each of the SERAF payments (May 10, 2010, and May 10, 2011) to loan to the Low - Mod Housing Fund, to replace funds loaned by the Low-Mod Fund to the Agency to make the SERAF payment.

WHEREAS, in order to reduce borrowing costs, City and Agency staff have recommended that since the Low-Mod Housing Fund currently has sufficient funds on hand to loan to the Agency, those funds should be loaned to the Agency to make the payment, and delaying the issuance of commercial paper until funding is needed for future Low-Mod Housing projects.

NOW THEREFORE, the City, Authority and Agency hereby agree to amend the Loan Agreement as follows:

SECTION 1. Section A of the Loan Agreement, entitled "Financing Authority Loan to Housing Fund" is hereby amended to read in full as follows:

A. FINANCING AUTHORITY LOAN TO HOUSING FUND.

1. Initial Loan Amount. Upon execution, and subject to the terms of this Agreement, the Authority agrees to make and the City agrees to accept a loan in the amount of $25,000,000.00 (the "Initial Loan Amount") to be paid in two installments as follows:

   a. First Installment in the amount of $12,000,000 by May 10, 2010.

   b. Second Installment in an amount not to exceed $13,000,000 by May 10, 2011.

2. Additional Loan Amounts. Throughout the term of this Agreement, the Authority will make additional funds available to the City as needed to replenish the Low-Mod Housing Fund for draws made to pay Associated Costs as defined in Paragraph A. 5 below. Such additional funds are estimated to be approximately $9,000,000 ("Additional Loan Amount"). The Initial Loan Amount, together with the Additional Loan Amounts, is referred to as the "Authority Loan".

3. Use of Loan Proceeds. The City shall deposit the Authority Loan proceeds into the Low-Mod Housing Fund, and shall use the proceeds only to fund low and moderate income housing activities, which include, but are not limited to, the development of affordable multi-family housing projects, loans for housing rehabilitation, teachers' housing loans and other eligible homebuyers' housing loans and eligible Low-Mod Housing

Fund administrative costs. In the event that the SERAF payment is no longer required to be made by the Agency, due to either a change in legislation or by a final order of a court of competent jurisdiction ("Change in Law"), then the Authority will not be obligated to make any installment of the Loan following the effective date of such Change in Law.

4. Sources of Loan Proceeds. The Authority shall issue City of San José Financing Authority's Lease Revenue Commercial Paper Notes in the amounts required to provide proceeds to make the installments set forth in paragraph 1.a and b. above.

5. Repayment Obligations.

   a. The City shall repay the Authority, from the Low-Mod Housing Fund, the principal amount of the Authority Loan, which includes Associated Costs, consisting of the following:

      i. Third party issuance costs, letter of credit fees, ongoing third party administrative costs, and other third party costs associated with the Authority Commercial Paper issued pursuant to this Agreement.

      ii. Interest at the actual interest rate paid by the Authority on the notes issued pursuant to this Agreement for as long as the Notes remain outstanding.

      iii. Fees to the City for loan origination and annual compliance.

   b. The City's obligation to repay the Authority Loan from the Low Mod Fund shall be contingent on the Agency's repayment of the SERAF Loan as set forth below.

6. City Discretion to Borrow from Authority. Notwithstanding the above, in the event that the City, in its discretion, determines that it has sufficient Low-Mod Housing Funds to loan to the Agency without borrowing commercial paper proceeds from the Authority, the Authority may delay the issuance of commercial paper until the City determines that funding is needed for future Low-Mod Housing projects.

Executed by the City, Authority and Agency on the day and year first above written.

CITY OF SAN JOSE

Approved to form:

Chief Deputy City Attorney

Debra Figone
City Manager

THE REDEVELOPMENT AGENCY
OF THE CITY OF SAN JOSE

Approved to form:

Chief Deputy General Counsel

Harry S. Mavrogenes
Executive Director

THE CITY OF SAN JOSE FINANCING
AUTHORITY

Debra Figone
Executive Director

EXHIBIT E

Exhibit G - Deferrals

City of San José

Inventory of Assets Received Pursuant to Health and Safety Code section 34176 (a) (2)

Item #	Purpose for which funds were deferred	Fiscal year in which funds were deferred	Amount deferred	Interest rate at which funds were to be repaid	Current amount owed	Date upon which funds were to be repaid
1	Supplemental Education Revenue Augmentation Fund Loan between the City of San José and the Redevelopment Agency of the City of San José - Loan 1 H&S Code Section 33690(c)(1)	2/23/2010	Principal Amount: $52,000,000 of Low Mod Funds	$40,000,000 is variable at 2.80% - LIBOR; $12,000,000 is variable at an estimated rate of 5.00%	6/30/2012 Outstanding balance: $55,067,206	6/30/2015
2	Supplemental Education Revenue Augmentation Fund Loan between the City of San José and the Redevelopment Agency of the City of San José - Loan 2 H&S Code Section 33690.5(c)(2)	5/10/2011	Principal Amount: $12,815,668 of Low Mod Funds	City pool investment rate	6/30/2012 Outstanding balance: $12,857,656	6/30/2016

Source:
City Housing Assets
Loan
Prepared 8/1/2012

EXHIBIT F

City of San José
Recognized Obligation Payment Schedule (ROPS)
SERAF Loan: Low-Mod Income Fund Loan to Redevelopment Agency
4/27/2012

(G) Amounts Borrowed from 20%:

	Low-Moderate Income Fund		
Loan Funding/Costs	*Loan 1*	*Loan 2*	Reference
Loan Principal			
CP Issuance	12,000,000		SERAF Payment No. 1 of 2 in May 2010 was $62,247,530. Low-Mod Fund loaned $52M to Agency to help make the payment.
TABs Issuance	40,000,000		
Cash-on-hand		12,815,668	SERAF Payment No. 2 of 2 in May 2010 was $12,815,668. Low-Mod Fund cash-on-hand provided all funds to Agency make the payment.
Costs to Date			
CP interest/fees	1,319,502 (1)		Actual interest and fees related to CP issued.[a]
TABs interest/fees	1,646,223 (2)		Actual interest and fees related to TABs issued.[a]
Loan Monitoring Fee	354,837		SERAF Loan Monitoring Fee per Loan Agreement[a]
Interest		34,592	Actual City Portfolio's net investment return rates, applied to principal.[a]
Costs remaining for FY 2012			
CP interest	18,218 (1)		Actual interest (3/15/12 to 6/14/12)
TABs interest	192,550 (2)		Actual 5/1/12 Coupon payment
Loan Monitoring Fee	46,875		SERAF Loan Monitoring Fee per Loan Agreement (billed Quarterly)
Interest		8,757	Assumes March-12 actual monthly interest
Costs Projected for FY 2013-2022			
CP interest/fees	9,406,674 (1)		Projected interest and fees related to CP issued.
TABs interest/fees	17,584,129 (2)		Projected interest and fees related to TABs issued.
Loan Monitoring Fee	1,875,000		SERAF Loan Monitoring Fee per Loan Agreement
Interest		3,044,158	"Portfolio Interest Earnings Projections 2011-2017" memo, dated 10/21/11, from Julia H. Cooper to Jennifer Maguire
Total	84,443,007	15,903,175	

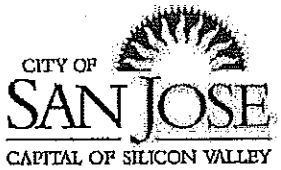
Notes
(a) Interest and fees are tracked on a SharePoint website:
http://inside.sjcity.net/finance/debtManagement/SERAF_Loan/default.aspx

CP = CSJFA Lease Revenue Commercial Paper (variable rate debt)
TABs = RDA Housing Set-Aside Tax Allocation Bonds, Series 2010C (variable rate debt)
SERAF = Supplemental Educational Revenue Augmentation Fund

Totals:
(1) C.P. Interest/Fees $ 10,744,394
(2) TAB interest/Fees $ 19,421,902
(3) Loan monitoring Fees 2,276,712

EXHIBIT G

COUNCIL/AUTHORITY AGENDA: 02-23-10
ITEM:



Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL, CITY OF SAN JOSE FINANCING AUTHORITY BOARD, AND REDEVELOPMENT AGENCY BOARD

FROM: Debra Figone
Harry S. Mavrogenes

SUBJECT: **SEE BELOW**

DATE: February 12, 2010

COUNCIL DISTRICT: Citywide

SUBJECT: FINANCING PLAN TO FUND THE AGENCY'S PAYMENT TO THE SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND ("SERAF")

RECOMMENDATION

It is recommended that the City Council, City of San José Financing Authority (the "Authority") and the Redevelopment Agency (the "Agency") Board adopt resolutions authorizing the City Manager, the Authority Executive Director, and the Agency Executive Director to negotiate and execute a Loan Agreement to provide funds to the Agency in the total amount of $75 million, from various funding sources, for the purpose of making the FY 2009-10 and 2010-11 State mandated payments to the Supplemental Educational Revenue Augmentation Fund, pursuant to the terms and conditions outlined in this memorandum.

OUTCOME

Approval of the recommendation will authorize the implementation of the proposed financing plan for the Agency to meet the State mandated payments to the Supplemental Educational Revenue Augmentation Fund ("SERAF") in 2010 and 2011.

EXECUTIVE SUMMARY

Proposed SERAF Financing Plan

The proposed SERAF financing plan was developed in consideration of Council actions taken on December 15, 2009 as outlined in the Background section of this report. The SERAF financing plan will be implemented as follows:

- Sources of funding:
  - FY 2009-10: $62 million total payment to be funded as follows: (1) $10 million will be loaned to the Agency from the City through Inter-Fund loans and (2) $52 million will be a loan from the City's Low and Moderate Income Housing Fund (the "Low-Mod Housing Fund") fund balance of which $40 million will be generated through the issuance of Housing Set-Aside Tax Allocation Bonds ("Housing Bonds") and $12 million will be generated through the City of San José Financing Authority's issuance of Commercial Paper ("CP") Notes.
  - FY 2010-11: $13 million total payment, funded by the Low-Mod Housing Fund fund balance to be generated through the City of San José Financing Authority's issuance of CP Notes.
- The funds from the Housing Bonds and the CP Program will be used to finance or refinance various affordable housing loans, programs and administration costs. These proceeds will free up funds in the Low-Mod Housing Fund previously allocated to those affordable housing projects. The funds from the Inter-Fund loans will be loaned from the City directly to the Agency.

The City will loan a total of $75 million to the Agency to enable the Agency to make the SERAF payments as required by the State (the "SERAF Loan").

Terms, Conditions, Timing of Funding, and Repayment Provisions

The SERAF Loan is subject to the terms and conditions described in this report and as set forth in Attachment 1.

Payment Dates. The SERAF Loan funds will be disbursed to the Agency in two installments, in sufficient time for the Agency to make the required payments on the following dates:

- $62 million on May 10, 2010
- $13 million on May 10, 2011

Repayment Provisions. The Agency's repayment to the City shall be from any legally available unrestricted funds. The SERAF Loan shall be repaid in accordance with the terms and conditions set forth in Attachment 1 (in particular, the *Maturity and Pre-Payment* sections), but no later than June 30, 2015 for the first installment of $62 million plus associated interest, fees and other carrying costs, and June 30, 2016 for the second installment of $13 million plus associated interest, fees and other carrying costs.

Priority of Repayment. The priority of repayment for the SERAF Loan will be made when Agency funds are available based on the circumstances at the time, with priority consideration for repayment to the Low-Mod Housing Fund.

Interest and Fees. Consistent with the Guiding Principles outlined later in this report, interest on the SERAF Loan, including associated fees, will be due quarterly on each August 1, November 1, February 1 and May 1, commencing August 1, 2010. To the extent that interest and ongoing fees cannot be paid currently, they will be added to principal balance owed, with interest due on the increased amount.

Call Provisions. The SERAF Loan will be callable, to the extent necessary, without penalty, to the extent that funding sources for the SERAF Loan need to be repaid. For example, if the banks that credit enhance the CP Program do not renew their letters of credit ("LOCs"), and/or one of the City's contributing funds of the Inter-Fund Loan needs to be replenished and/or the LOC securing the Housing Bonds cannot be renewed, the City may need to accelerate the repayment from the Agency of the corresponding portion of the SERAF Loan.

Security. The Agency owned California Theatre, which has an estimated value at least equal to $25 million will be used to provide collateral for the City of San José Financing Authority CP Program.

If the Agency fails to repay the Housing Fund Loan in full on the payment dates, the percentage of housing set-aside tax increment will increase as required by Sections 33690 and 33690.5 of the Redevelopment Law. Therefore, if this were to occur, the Low-Mod Housing Fund would be obligated to repay the CP Notes from this additional revenue source.

BACKGROUND

Supplemental Educational Revenue Augmentation Fund

On July 28, 2009 Governor Schwarzenegger signed a package of 26 bills, as amended, to close the $23.24 billion budget shortfall in the 2009-2010 State Budget. The budget package required redevelopment agencies across the state to make payments totaling $1.7 billion in FY 2009-10 and $350 million in FY 2010-11 to K-12 school districts serving students living in or near their redevelopment areas. Redevelopment agencies must deposit these payments into a new county Supplemental Educational Revenue Augmentation Fund for allocation to the designated school districts. For the Agency, the impact is estimated at $62 million in FY 2009-2010 and an additional $13 million in FY 2010-2011. If the Agency does not make the SERAF payments, the Agency faces a "death penalty" which essentially requires the Agency to suspend all operations other than existing obligations. This includes ending all funding to the City for future affordable housing projects.

The courts have previously determined that a similar "taking" by the state of $350 million in redevelopment funds statewide proposed in 2008-2009 was unconstitutional. In response to this year's unconstitutional taking of redevelopment funds, the California Redevelopment Association ("CRA") has filed another lawsuit to challenge the State's budget action this year. On February 5, the case was heard by Judge Lloyd Connelly of the Sacramento Superior Court. The judge rendered no decision and asked for additional briefing from both sides. All briefs and responses are due to the Court by March 2. The judge is then expected to take the case under submission and has 90 days to rule. The CRA has asked for a court ruling before May 2010, the date redevelopment agencies must make their FY 2009-2010 payment. While there is no way to predict how long a court proceeding will take, given the magnitude of the raid and the impact it will have on redevelopment agencies, a ruling by early 2010 is hopeful, however the State will likely appeal this ruling and a final decision may take two years. To avoid the "death penalty", the Agency is required to deposit the SERAF funds by the specified dates.

Tax Increment Revenues

Redevelopment agencies in California receive an annual funding stream known as tax increment revenues. Tax increment revenues are based on the growth in assessed value in a redevelopment project area since its establishment. Under Redevelopment Law, 20% of all tax increment revenues must be used for affordable housing. This increment is known as the "20% housing set-aside." The remaining 80% of the tax increment revenues, subject to certain other funding requirements, may be used for general redevelopment purposes in the redevelopment project area. Redevelopment agencies may issue "tax allocation" bonds that are secured either by the 20% housing set-aside tax increment revenues or the 80% portion of tax increment revenues.

City of San José Redevelopment Agency Overview

Since its formation in 1956, the Agency has successfully leveraged tax increment revenues to pursue a comprehensive program to revitalize Downtown, industrial areas, neighborhoods and business districts. The Agency is active in 21 Project Areas comprising 16% of the City's land mass and nearly 40% of total jobs.

The returns on Agency investments have been impressive and the Agency has made a significant difference in the lives of San José residents and businesses. The $2.5 billion that the Agency has invested in its core services is estimated to have generated approximately $19 billion in private investment.

SERAF Payment Options

The economic downturn that began in 2007 has negatively impacted the Agency's budget. With the Agency's finances hampered by the severe economic crisis and pre-existing obligations and the State's SERAF take to temporarily fix the State's budget deficit, the Agency has limited options to fund the SERAF payments. To assist the City and the Agency with formulating a viable financing plan, a financing team was formed with representatives from the Department of Finance, Housing, City Manager's Office, Budget Office, City Attorney's Office, the Agency, Bond Counsel, and Financial Advisors (the "SERAF Financing Team"). The SERAF Financing Team evaluated several options and formulated the proposed financing plan outlined in this report. The proposed financing plan allows the Agency to make the SERAF payments on the required payment dates and achieves the goals of the Guiding Principles outlined below, including: maintaining the fiscal health of the City and the Agency, minimizing the risks to the General Fund and Housing Fund, maximizing flexibility, ensuring lowest cost of funds available, and minimizing impact to the City's Housing programs (see Analysis – Guiding Principles).

The proposed SERAF financing plan was also developed in consideration of Council/Agency Board actions taken on December 15, 2009 with regard to the direction for the Agency's SERAF obligations:

- Staff to inform the State at the required deadline that the Agency will pay the required $62 million in Year 1 and $13 million in Year 2
  As required by law and dependent on action taken by the Council today, the Agency Staff will notify the Santa Clara County Auditor by March 1 how it intends to fund the SERAF payment.

- Initially require a loan from the 20% Housing Funds of no more than $40 million in Year one to help pay for the Agency's obligations to the State
  The recommended financing plan as described in this report includes $40 million from the Low-Mod Housing Fund.

- Accept the Mayor's proposal for the use of $10 million in other funds to pay the State, *The recommended financing plan as described in this report includes $10 million from the Inter-Fund Loan per the Mayor's proposal (see Attachment 2).*

- and direct staff to evaluate other sources of funds for the remainder of the obligation to the State ($12 million in Year 1 and $13 million in Year 2), including the following in order of priority:

  1. Savings from additional project cuts in the Redevelopment budget;
     As more fully described in the Agency's revised budget proposal which is being considered by the Council and Agency Board on this same date, the Agency has made significant cuts in operating and capital budgets, has liquidated surplus funds in existing contracts and has used best efforts to renegotiate committed/encumbered funds. Those efforts are ongoing. The Agency is facing continuing uncertainties as to demands on its available unrestricted cash. It is unclear whether Agency will be able to sell bonds to obtain $30 million as anticipated in FY 2009-10. Negotiations with the County are ongoing and it is unclear what effect the conclusion of those negotiations may have on available unrestricted Agency funds.

  2. City of San José Financing Authority issuance of Commercial Paper with full reimbursement of costs by the Agency;
     The recommended financing plan as described in this report includes $25 million in CP Notes. It should be noted that this option may be expanded if any of the proposed financing plan components are not available (subject to LOC provider's approval).

  3. Additional borrowing from two of the funds identified by the Mayor ($14.9 million from Fund 539 – Sewage Treatment Plant Connection Fee Fund and $3.1 million from Fund 432 – Ice Centre Revenue Fund); and
     Additional borrowings from other City Funds is not recommended at this time (see Attachment 4), however, this option may be revisited if any of the proposed financing plan components are not available.

  4. Temporary loans (interest paid by Agency) from:
     - Fund 423 – Integrated Waste Management Fund
     - Fund 541 – Sewer Service and Use Charge Fund
     - Fund 446 – Storm Service Operating Fund
     - Fund 418 – Library Parcel Tax Fund
     - Fund 426 – Anti-Tobacco Master Settlement Agreement Revenue Fund

Additional borrowings from other City Funds is not recommended at this time (see Attachment 4), however, this option may be revisited if any of the proposed financing plan components are not available.

ANALYSIS

Financing Proposal for Agency's SERAF Payments

Guiding Principles

In order to structure the SERAF payments, City and Agency staff established "Guiding Principles" to help facilitate the development of the proposed financing structure and terms. The Guiding Principles consist of:

- Maintain Fiscal Health (City and Agency)
  - Goal to maintain City and Housing ratings
  - Conforms to fiscal management best practices
  - Agency to continue as a viable economic development engine for the City
- Minimize risks to the General Fund and Housing Fund
  - General Fund and Housing Fund made whole
  - Follow City Council's Inter-Fund Loan Policy
  - City and Agency staff to develop loan terms collaboratively (repayment period, interest rate, etc.)
- Maximize flexibility
  - Allows Council/Agency Board discretion
  - Terms can be flexible based on changes in economic conditions
  - Allows the Agency to retire SERAF debt without prepayment penalties
- Ensure lowest cost of funds available
- Minimize Impact to Housing Programs
  - Continue to fund the Housing Department homebuyer, mobilehome, and rehabilitation programs at traditional levels
  - Fund construction for the Markham Terrace project
  - Complete refinancing of current debt that must be addressed by June 2010

Financing Proposal

The proposed SERAF financing plan was developed in consideration of Council actions taken on December 15, 2009 (see Background section). Staff proposes to fund the Agency's SERAF payments through a loan to the Agency from the following sources:

1. $10 million from the following City special funds: the Subdivision Park Trust Fund ($3 million), the Sewage Treatment Plant Connection Fee Fund ($5 million), and the Ice Centre Fund ($2 million) (the "Inter-Fund Loan"); and

2. The Low-Mod Housing Fund in an amount sufficient to fund the remaining $65 million in SERAF payments plus the associated issuance and carrying costs of debt issued to create flexibility in the Housing Funds so as to make the loan (the "Housing Fund Loan").

The Housing Fund Loan will be funded by amounts on deposit in the Low-Mod Housing Fund at the time the SERAF payments are due.

- $40 million attributable to the issuance of Merged Area Redevelopment Project Taxable Housing Set-Aside Variable Rate Demand Bonds, Series 2010C and Series 2010D (the "2010C and 2010D Bonds") to finance and refinance loans in connection with certain affordable housing projects. These Bonds will free up funds previously allocated to those affordable housing projects to be loaned to the Agency.

- A loan from the City of San José Financing Authority to the Low-Mod Housing Fund in an amount that will net the Fund $25 million. This loan will enable the Low-Mod Housing Fund to continue to support $25 million in various existing affordable housing projects and programs over the next two years. This will free up $25 million in the Low-Mod Housing Fund that otherwise would be used for such programs to be loaned to the Agency to meet its SERAF payments. The source of this loan to the Low-Mod Housing Fund is the issuance of the Authority Commercial Paper Notes in an amount sufficient to fund $25 million of affordable housing programs and the projected capitalized interest and fees associated with the CP over the term of the loan.

The Inter-Fund Loan and the Housing Fund Loan (together, the "SERAF Loan") are subject to the terms and conditions described in this report and as set forth in Attachment 1. The SERAF Loan funds will be disbursed to the Agency in two installments, in sufficient time for the Agency to make the required payments of $62 million on May 10, 2010 and $13 million on May 10, 2011. The first installment will be funded by the Inter-Fund Loan ($10 million) and the Housing Fund Loan ($52 million total, of which $40 million is attributable to the 2010C and 2010D Bonds and $12 million is attributable to CP Notes). The second installment will be funded by the Housing Fund Loan ($13 million attributable to CP Notes).

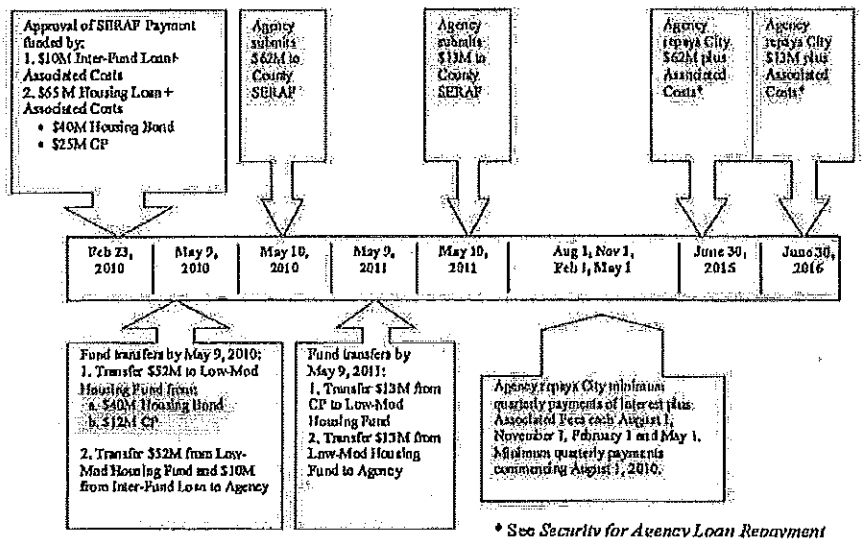
Provisions in the Event that the CRA Lawsuit Prevails

As discussed earlier in the Background section of this report, the California Redevelopment Association has filed a lawsuit to challenge the State's budget action this year with regards to the SERAF payments. Should the CRA lawsuit prevail, at the time the lawsuit prevails (final judgment):

i) and the Agency has deposited the SERAF funds with the County, the Agency shall immediately repay to the City all outstanding SERAF Loan amounts, including any Associated Costs incurred to-date. This transaction must be completed within 30 days from the date the Agency's SERAF deposits are received by the Agency;
ii) and the SERAF funds are not yet loaned to the Agency and are held by the City and/or CP Notes have not yet been issued for purposes of this Loan, this SERAF Loan and related provisions will be null and void, and the Housing Department shall be entitled to use its $40 million of Low-Mod housing funds for its projects and programs; however, the Agency will be responsible for paying any Associated Costs accrued to-date within 30 days of the final judgment;
iii) and the SERAF funds are loaned to the Agency, the Agency shall relinquish such funds to the City for repayment of the SERAF Loan and pay any Associated Costs accrued to-date within 30 days of the final judgment.

The financing proposal and repayment timeline for the SERAF Loan is summarized in the chart below.

SERAF Financing Plan Timeline



* See *Security for Agency Loan Repayment*

Repayment Amount

Principal. $75 million total principal from the following sources: the Subdivision Park Trust Fund ($3 million), the Sewage Treatment Plant Connection Fee Fund ($5 million), the Ice Centre Revenue Fund ($2 million), and the Low-Mod Housing Fund ($65 million).

Associated Costs. The Agency's obligation to repay the SERAF Loan will include all costs borne by the City, including the Low-Mod Housing Fund, associated with the funding sources described as follows.

- Inter-Fund Loan – Repayment of the Inter-Fund Loan shall include interest accruing at a rate that is equal to the City's Investment Pool rate.
- Housing Bonds – Repayment of the Housing Bonds shall include third party costs of issuing bonds, interest on the bonds, letter of credit fees, ongoing third party administrative costs and related costs that are not funded with such Bonds.
    - Issuance costs are estimated at 1.25% to 1.50%.
    - Annual interest costs are estimated at 0.50%, based on current rates.
    - Annual letter of credit fees and other administrative costs are estimated at 1.70%, based on current rates. Fees and interest cost may increase if it is necessary to refinance the Bonds due to a decision by the LOC provider not to renew its LOC on the expiration date in April 2013.
- CP Notes – Repayment of the CP Notes shall include third party costs of issuance, interest, letter of credit and related banking fees and ongoing third party administrative costs and other related costs for the CP Program.
- Interest revenues earned from funds on deposit with the City associated with the SERAF Loan shall be netted against the Associated Costs.

City Administrative Costs. Consistent with Council's prior budget actions and the Council Policy for issuing housing revenue bonds, the SERAF Loan to the Agency is subject to the following loan fees:

- A onetime loan origination fee estimated at $375,000 based on a total SERAF loan value of $75 million. This loan origination fee of 0.50% (1/2 of 1%) is applied to the principal amount and is payable by May 1, 2010 (coinciding with the timing for the deposit to SERAF) to reimburse the City for the resources utilized to develop, analyze and implement the SERAF Loan funding components;
- An annual loan administration and monitoring fee estimated at $187,500 per year based on a loan value of $75 million. This annual loan administration and monitoring fee of 0.25% is applied to the original principal amount (not based on the declining par amount of the loan) for each year the SERAF Loan remains outstanding.

The loan fees described above are levied to compensate the City for the administration of the SERAF Loan which includes, but not limited to, the following activities: ongoing monitoring and reporting to third party stakeholders, annual review and adjustment of the repayment schedule, annual review, administration and enforcement of Agency compliance to the terms and conditions of the loan, and the ongoing management of the various funding sources of the SERAF Loan to balance the financing needs of these sources against the SERAF Loan.

Based on current market rates, the total estimated all-in Associated Costs noted above for FY 2010-11 is between 4 to 5 %, which consists of interest cost (~1-2%), banking fees (~1-2%) and the City's loan fees (~0.25%). These costs are reasonable and low compared to the true interest cost estimate of approximately 8.50% the Agency received in late 2008 for taxable bonds[1] or the costs that may be associated with a new financing debt issue of the Agency. The actual Associated Costs may vary depending on financial market factors that affect interest rates, liquidity, competition, demand, and other global macro and micro economic factors, in addition to the City's financial management policies and budgeting practices.

It should be noted that the estimated all-in Associated Costs meet the Guiding Principle of ensuring the lowest cost of funds available for the SERAF loan. The City's Financing Team was able to achieve this goal in developing the financing structure through the excellent credit ratings the City and Housing Department has that translate to lower costs of borrowing. The funds proposed to be borrowed by both the City and the Housing Department to provide funding for the SERAF loan are the lowest cost borrowing mechanisms available for the City and the housing program.

Source of Loan Repayments and Repayment Dates. Repayment to the City shall be from any legally available unrestricted funds. The SERAF Loan shall be repaid in accordance with the terms and conditions described in this report (in particular, the *Maturity and Pre-Payment* sections), but no later than June 30, 2015 for the first installment of $62 million plus associated interest, fees and other carrying costs, and June 30, 2016 for the second installment of $13 million plus associated interest, fees and other carrying costs.

Consistent with the Guiding Principles outlined in this report, interest on the SERAF Loan including fees (such as for letters of credit) will be due quarterly on each August 1, November 1, February 1 and May 1, commencing August 1, 2010. To the extent that interest and ongoing fees cannot be paid currently, they will be added to principal balance owed, with interest due on the increased amount.

Priority of Repayment. The priority of repayment for the SERAF Loan will be made when Agency funds are available based on the circumstances at the time, with priority consideration for repayment to the Low-Mod Housing Fund.

[1] Per Agency Memorandum dated November 6, 2008 on the Proposed Issuance of Tax Allocation Bonds.

Call Features. The SERAF Loan will be callable, to the extent necessary, without penalty to the City or Authority, to the extent that funding sources for the SERAF Loan need to be repaid. For example, if the banks that credit enhance the CP do not renew their LOCs, and/or one of the contributing funds of the Inter-Fund Loan needs to be replenished and/or the LOC securing the 2010C and 2010D Bonds cannot be renewed, the City will need to fund the amount due and may at the City's discretion accelerate the Agency's obligation to repay the corresponding portion of the SERAF Loan.

Security for Agency Loan Repayment. The Agency owned California Theatre, which has an estimated value at least equal to $25 million, will be used to provide collateral for the City of San José Financing Authority CP Program.

Failure to Repay SERAF Loan. If the Agency fails to repay the Housing Fund Loan in full on the payment dates, the percentage of housing set-aside tax increment will increase as required by Sections 33690 and 33690.5 of the Redevelopment Law. Therefore, if this were to occur, the Low-Mod Housing Fund would be obligated to repay the CP Notes from this additional revenue source.

A summary of the sources and use of funds is provided in Table 1 below.

Table 1 – Summary of Sources & Use of Funds *(millions of dollars)*	**FY 2009-10**	**FY 2010-11**	**Total**
Sources of Funds			
Inter-Fund Loan:			
Subdivision Park Trust Fund	$3.0		$3.0
Sewage Treatment Plant Connection Fee Fund	5.0		5.0
Ice Centre Revenue Fund	2.0		2.0
Housing Fund Loan:			
Low-Mod Housing Fund	40.0		40.0
Commercial Paper Program	12.0	13.0	25.0
Total Sources of Funds	**$62.0**	**$13.0**	**$75.0**
Use of Funds			
SERAF Payment	**$62.0**	**$13.0**	**$75.0**

Inter-Fund Loan

In response to Budget Document #11 issued by Councilmembers Liccardo and Pyle as part of the Agency's budget process as well as Council questions on the topic of interdepartmental loans, a preliminary review of the City's 114 budgeted funds was conducted to evaluate the potential for Agency borrowing. Based on that review, while there are many considerations and risks as outlined in the information memoranda on Agency borrowing from City funds from the City Manager, dated November 18, 2009, and December 10, 2009 (see Attachments 3 and 4), it was determined that balances in the Subdivision Park Trust Fund (up to $10 million), the Sewage Treatment Plant Connection Fee Fund (up to $5 million), and the Ice Centre Revenue Fund (up to $2 million) could possibly be used for loans to the Agency, and no additional funding sources could be recommend for Agency borrowing (see attached memoranda).

The City Council Policy on Inter-Fund Loans specifies that such loans must have an identified repayment source and date; include an interest component that equals the investment earnings the fund would have received had the loan not occurred; and be immediately due and payable if needed by the fund that provided the loan. As noted in the Financing Proposal section of this memorandum, the loans to the Agency from the Subdivision Park Trust Fund, the Sewage Treatment Plant Connection Fee Fund, and the Ice Centre Revenue Fund will be repayable from the Agency's 80% tax increment revenue and/or other legally available unrestricted funds in accordance to the terms and conditions of the SERAF Loan as set forth in Attachment 1. The appropriate interest component will be the City's actual monthly pooled investment rate over the life of the loan. As noted in the attached information memoranda, in the event that the Agency ultimately was unable to repay these loans, the City's General Fund may become liable for the loan repayment to these lending funds to meet the needs of these special funds.

With regard to the Inter-Fund Loan from the various special funds recommended, it should be noted that Council approved the Mid-Year Budget Review Report recommendations on February 9, 2010 which included a reduction of $2.7 million to the Sewage Treatment Plant Connection Fee Fund fund balance for 2009-2010. This reduction is a combination of: 1) the continuing impact of the recent recession on connection fee revenues related to development activity and, 2) adjustments to reconcile actual loan repayment receipts from the Storm Sewer Operating Fund. This mid-year action reduced the estimated ending fund balance in that fund from $14.9 million to $12.2 million and, after the further reduction of $5.0 million for the recommended loan to the Agency, would leave $7.2 million of available ending fund balance, increasing the likelihood of capital project or equipment replacement delays during the term of the loan. As discussed above, for any of the three funds proposed for borrowing, in the event of a time-sensitive urgent repair, replacement, or other need, where the City has little discretion to delay, the Agency would be required to repay any portion of the Inter-Fund Loan immediately, in the amount required for such urgent repair, replacement, or other need.

The SERAF Financing Team reviewed the terms and conditions of the SERAF Loan, including the Inter-Fund Loan, with the City Auditor's Office.

Financing Needs of the Low-Mod Housing Fund and Housing Bond Issuance

The Low-Mod Housing Fund currently has approximately $57 million in variable rate Housing Bonds outstanding which are backed by a LOC issued by the Bank of New York (BNY) with an expiration of June 29, 2010 and $50 million in a line of credit with BNY that expired on April 1, 2009. In September 2008, Bank of New York announced that it had stopped issuing new letters or lines of credit in connection with municipal obligations ("credit facilities") and that it would not renew existing credit facilities upon their expiration. A financing team that includes the Departments of Finance and Housing, City Attorney's Office, Redevelopment Agency, Bond Counsel, and Financial Adviser was formed in late 2008 to structure a comprehensive financing plan to meet the Low-Mod Housing Fund's financing needs for future projects and to refinance the BNY credit facilities ("Housing Bonds", Series 2010A-E). The overall bond financing plan is designed to optimize the Housing Department's housing set-aside bonding capacity and cash flow to enable it to fund over the next five fiscal years annual administrative costs and existing loan program for Teachers and Rehabilitation loans.

The scope of the Housing financing plan was further expanded as a result of Council direction for the Low-Mod Housing Fund to loan up to $40 million to the Agency. The financing team is currently in the process of finalizing the financing plan for the Housing Bonds, with an estimated aggregate principal amount not to exceed $166,695,000 to meet its overall funding needs. The full scope of the Housing Bonds and the related financing documents is scheduled for City Council and Agency Board approval on March 2, 2010. The Housing Bonds are scheduled for closing in late March or early April 2010.

The Series 2010C and 2010D Bonds will be issued to finance and refinance loans made or to be made in connection with certain affordable housing projects including Brookwood Terrace, Orvieto Family, Belovida, Fourth Street and Markham Terrace. Upon the issuance of the Housing Bonds, Series 2010C and 2010D, $40 million from the Low-Mod Housing Fund will be freed up to loan to the Agency.

The 2010C and 2010D Bonds will be issued as taxable variable rate demand housing set-aside bonds payable on a subordinate basis to the fixed rate senior lien housing set-aside bonds. Wells Fargo has committed to provide a direct pay LOC that guarantees the payment of principal and interest on the 2010C and 2010D Bonds and liquidity to investors that may tender their bonds. Interest rates on the 2010C and 2010D Bonds are reset weekly; interest will be paid on the first of each month, commencing May 1, 2010. Principal is payable on August 1 of each year, with the anticipated first principal payment date on August 1, 2016. The Wells Fargo LOC has an expiration date of three years. The annual letter of credit fee is anticipated to be1.50% subject to increase in the event that the Agency's senior lien housing set-aside bonds are downgraded.

Due to the increase in debt service related to these bond issues, and maintaining funding levels for core housing programs, the Housing Department is proposing a $1 million budget reduction in staffing levels for FY 2010-11.

Commercial Paper Program

There are several benefits of using the CP Program to fund affordable housing projects, including the relative low cost of the program, market demand for high quality CP Notes, matching of funding date to the actual issuance of the CP Notes which minimizes actual interest expense, and mitigates further needs for Inter-Fund Loans. Another major benefit of using the CP Program is that no CP Notes would be issued if the CRA wins the lawsuit against the State prior to the required funding dates.

The use of the CP Program to fund affordable housing projects and programs is subject to the consent of the LOC banks. Staff has received preliminary indications from one of the banks that it would approve such a use of proceeds. Amendments to the CP program will need further approval of the Council and the Authority. Should the banks reject this use, staff will evaluate and present to Council and Agency Board an alternative option, including the potential of additional borrowings from the Sewage Treatment Plant Connection Fee Fund, the Ice Centre Fund, and temporary loans from various funds as directed by the Mayor and City Council at the December 15, 2009 Redevelopment Agency Board meeting .

Background on City CP Program

Pursuant to the City Council and the Authority Board approval received on November 15, 2005, the Authority is authorized to have up to $116.0 million in CP outstanding at any time. Approximately $48.5 million in CP is currently outstanding, which leaves approximately $67.5 million in available capacity for the City and Authority to utilize for other eligible projects.

The CP Program utilizes a lease revenue financing structure secured by the following City properties: the former City Hall, the Health Building, and "C" and "E" parking lots located at the former City Hall site, the San José Museum of Art, the Tech Museum, the Mexican Cultural Heritage Plaza, the former Martin Luther King Main Library, the Animal Care Center, Fire Station No. 1, the Mabury Yard and the South Yard. Staff has reviewed the list of pledged assets and identified potential replacement assets including the California Theater the Agency shall be pledging for the SERAF Loan, if the need for replacement arises.

The CP Program is backed by an LOC issued by State Street Bank and Trust Company and the California State Teachers' Retirement System (together, the "Banks"). Per the terms of the Letter of Credit Agreement, the Banks are not jointly responsible for payments on the draws made on the Letter of Credit. The respective obligations of the Banks are: State Street Bank -- 75% and the California State Teachers' Retirement System -- 25%. The Letter of Credit Agreement has

recently been extended for a three year period with an expiration date of January 27, 2013. The Banks have approval rights regarding the projects funded by the Authority and the City under the CP Program.

A summary of the projects currently funded by the CP Program is provided in Table 2 below.

Table 2 – Summary of Commercial Paper Capacity and Outstanding Commercial Paper Notes	**Outstanding CP (Millions)**
Commercial Paper Capacity	$116.0
Commercial Paper Notes Outstanding:	
Central Service Yard II	24.3
Integrated Utility Billing, Customer Service and Performance Management System	8.0
Technology, Furniture & Equipment	8.2
HP Pavilion	8.0
Total Commercial Paper Capacity Remaining	**$67.5**

Risks associated with the CP Program

The CP Program is subject to the following risks:

- LOC Renewal Risk - Should the Banks decide not to renew the LOC at the end of the current three year term and no replacement banks are identified, the CP Notes outstanding will need to be repaid in full. The General Fund is ultimately responsible for the repayment of outstanding notes. LOC fees are subject to change at future renewal dates based on market conditions

  To mitigate the risk to the General Fund, the proposed financing plan requires the Agency to provide additional security as collateral (see *Security for Agency Loan Repayment* section above).

- Interest Rate Risk – interest rate for CP Notes may increase significantly depending on the overall financial market conditions.

- Downgrade Risk – the Banks' credit ratings may be downgraded in the future due to changes in the market's perception of the financial health of the Banks. To the extent a downgrade occurs, the CP Notes may become unmarketable.
- Marketability Risk – If there is a lack of market demand for CP Notes, the notes may be tendered back to the Authority and the Authority may not be able to find buyers for these notes.
- The LOC is backed by certain real properties pledged as leased assets by the City and Authority with a total replacement value of approximately $125 million. If any of the underlying leased assets are no longer available (e.g. former Martin Luther King Main Library and the former City Hall), replacement assets would need to be identified or the CP Program capacity may adversely be impacted. Replacement assets require approval by LOC providers. Staff has reviewed the list of pledged assets and identified potential replacement assets if the need for replacement arises.

Utilization of the CP Program

As stated above, the CP Program has a total capacity of $116.0 million, of which approximately $48.5 million in CP Notes is currently outstanding, which leaves approximately $67.5 million in available capacity for the City and Authority to utilize for other eligible projects after funding the Housing projects as described in this report. Although the Agency is required to make minimum quarterly payments for Associated Costs, to the extent that such costs are not paid currently, they will be added to the principal balance owed. This means that the Authority will need to allocate CP capacity in excess of the $25 million principal amount for Housing projects in order to ensure sufficient coverage for both the principal and capitalized interest and fees, which is estimated at $34 million for the 5 year loan period.

This may limit the City and the Authority's ability to fund other capital projects in the future, until the Agency repays the SERAF loan. Examples of potential capital projects that may be considered by Council in the future for use of the CP Program include, but are not limited to, the LED streetlights project, various energy improvements and solar energy projects, technology acquisition and improvements, Airport West project (former FMC site), and other potential capital equipment acquisitions. It should be noted that these projects are provided as examples only and do not represent staff recommendations. None of these projects have been analyzed internally for project feasibility and none have been discussed with Council for further guidance.

EVALUATION AND FOLLOW-UP

This memorandum presents the set of recommendations related to the City Council, the Agency and the Authority's approval of the proposed financing plan to meet the Agency's SERAF payments and authorization to negotiate and execute a Loan Agreement pursuant to the attached Term Sheet. The details relating to the issuance of Merged Area Redevelopment Project Taxable Housing Set-Aside Variable Rate Demand Bonds, Series 2010C and Series 2010D to finance and refinance City loans in connection with certain affordable housing projects are provided in a separate Council Memorandum agendized for the March 2, 2010 Council Meeting. Staff will return to the Council and the Authority Board to request approvals for various actions related to the CP Program and other budget actions at subsequent Council Meetings prior to May 10, 2010. Additionally, the Housing Department is proposing to reduce its administrative budget by $1 million in the Proposed FY 2010-11 Budget to enable the SERAF payment and meet the Guiding Principles outlined earlier in this memorandum. This proposal will be further discussed as a part of the City's FY 2010-11 budget process.

PUBLIC OUTREACH/INTEREST

☒ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This report was prepared by the Finance Department in coordination with the Offices of the City Manager and City Attorney, the Housing Department, the City Manager's Budget Office, and the Redevelopment Agency.

COST SUMMARY/IMPLICATIONS

As stated above, repayment of SERAF Loan principal will be due on or prior to June 30, 2015 in the amount of $62 million plus Associated Costs and on or prior to June 30, 2016 in the amount of $13 million plus Associated Costs. Interest on the SERAF Loan, including fees will be paid quarterly by the Agency to the City on each August 1, November 1, February 1 and May 1, commencing August 1, 2010. To the extent that interest and ongoing fees cannot be paid currently, they will be added to principal balance owed, with interest due on the increased amount.

Staff will return to the Council and the Authority Board to request approvals for the actions related to the CP Program and other budget actions related to the SERAF Loan at subsequent Council Meetings prior to May 10, 2010.

CEQA

Not a project.

Debra Figone
City Manager

Harry S. Mavrogenes
Executive Director, Redevelopment Agency

For questions, please contact Scott P. Johnson, Director of Finance, at (408) 535-7000.

Attachments:

1. SERAF Loan Terms & Conditions
2. Mayor's Budget Message Fiscal Year 2009-2010 Redevelopment Agency Capital and Operating Budget and 2010-2015 CIP - Supplemental (December 8, 2009 Agency Board Agenda, Items 8.3/8.4)
3. Information Memorandum – *Sources of Financing Beyond Affordable Housing Fund* (November 19, 2009)
4. Information Memorandum - *Agency Sources of Funding from City Funds* (December 11, 2009)

EXHIBIT B

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

August 31, 2012

Ms. Leslye Corsiglia, Director of Housing
City of San Jose
200 East Santa Clara Street
12th Floor, Housing Department.
San Jose, CA 95113

Dear Ms. Corsiglia:

Subject: Housing Assets Transfer Form

Pursuant to Health and Safety Code (HSC) section 34176 (a) (2), the City of San Jose submitted a Housing Assets Transfer Form (Form) to the California Department of Finance (Finance) on August 1, 2012 for the period February 1, 2012 through August 1, 2012.

HSC section 34176 (e) defines a housing asset. Assets transferred deemed not to be a housing asset shall be returned to the successor agency. Finance has completed its review of your Form, which may have included obtaining clarification for various items. Based on a sample of line items reviewed and the application of law, Finance is objecting to the following assets or transfer of assets identified on your Form:

- Exhibit C, Item 4 and Exhibit D, Item 8 – The loan agreement for Eden Housing was entered into on June 29, 2011; however, HSC section 34163(b) prohibits a successor agency from entering into a contract with any entity for any purpose after June 27, 2011.

- Exhibit D, Items 1176 through 1195 – These are rehabilitation loan receivables entered into after June 27, 2011. HSC section 34163(b) prohibits a successor agency from entering into loans, agreements, or contracts with any entity for any purpose after June 27, 2011.

- Exhibit G, Item 1 – A reported $56 million deferred receivable related to a Supplemental Educational Revenue Augmentation Fund loan out of the successor agency's low and moderate income housing fund. The Santa Clara Auditor-Controller's Office has provided Finance with a preliminary objection determination. According to the Auditor-Controller's Office, the above loan was funded using successor agency TAB proceeds which are currently in repayment from the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed on your Form. If you disagree with our determination with respect to any items on the Form, you may request a Meet and Confer within five business days of receiving this letter.

Please direct inquiries to Robert Scott, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Rachel VanderVeen, Administrative Officer, City of San Jose
Ms. Irene Lui, Controller Treasurer, Santa Clara County
Ms. Jacelyn Ma, Property Tax Manager, Santa Clara County
Ms. Manju Beher, Internal Auditor Supervisor, Santa Clara County
California State Controller's Office

EXHIBIT C

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

February 15, 2013

Ms. Leslye Corsiglia, Director of Housing
City of San Jose
200 East Santa Clara Street
12th Floor, Housing Department.
San Jose, CA 95113

Dear Ms. Corsiglia:

Subject: Housing Assets Transfer Form

This letter supersedes Finance's Housing Asset Transfer Form letter dated August 31, 2012. Pursuant to Health and Safety Code (HSC) section 34176 (a) (2), the City of San Jose as Housing Successor Agency (Agency) submitted a Housing Assets Transfer Form (Form) to the California Department of Finance (Finance) on August 1, 2012, for the period February 1, 2012 through August 1, 2012. Finance issued its determination related to those transferred asset on August 31, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more items that was objected to by Finance. The Meet and Confer session was held on January 28, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed.

- Exhibit C, Item 4 and Exhibit D, Item 8 – Eden Housing Loan Agreement. Finance continues to object to the transfers. Finance originally objected to the transfers because the loan agreement for Eden Housing was entered into on June 29, 2011; however, HSC section 34163 (b) prohibits an agency from entering into a contract with any entity for any purpose after June 27, 2011. The Agency contends the items are housing assets because on March 29, 2011, the City Council and former Redevlopment Agency (RDA) Board approved the Development and Disposition Agreement (DDA), which was signed on June 29, 2011. However, the resolution provided show that the Council of the City of San Jose (City Council) approved the DDA between the City and Eden Housing and not the former RDA Board. Therefore, the DDA is not an enforceable obligation of the former RDA. Since there is no enforceable obligation associated with the Exhibit C, Item 4 encumbrance, the item is not a housing asset pursuant to HSC section 34176 (e) (2). Furthermore, to the extent that former RDA funds were used to fund the Exhibit D, Item 8 loan receivable, the asset should be returned to the successor agency. The successor agency shall administer the loan receivable and any payments received shall be used to fund approved enforceable obligations or be disbursed to the affected taxing entities.

- Exhibit D, Items 1176 through 1195 – These are rehabilitation loan receivables entered into after June 27, 2011. HSC section 34163 (b) prohibits an agency from entering into

loans, agreements, or contracts with any entity for any purpose after June 27, 2011. The Agency did not object to the determination and stated that the items were listed in error because these were items funded through City agreements and not by the former RDA. Therefore, the items are not housing assets and should be removed from the Form.

- Exhibit G, Item 1 – A reported $56 million in deferred receivable related to a Supplemental Educational Revenue Augmentation Fund (SERAF) loan out of the successor agency's Low and Moderate Income Housing Fund (LMIHF). Finance continues to object to the transfer. Finance originally objected to the transfer because the Santa Clara County Auditor-Controller's Office provided Finance with a preliminary objection determination. According to the Auditor-Controller's Office, the loan was funded using successor agency Tax Allocation Bond (TAB) proceeds, which are currently in repayment from the Redevelopment Property Tax Trust Fund (RPTTF) through the successor agency's Recognized Obligations Payment Schedule (ROPS). The Agency contends the item is a housing asset because the SERAF payment was made with $10 million in interfund loans and $52 million in cash from the LMIHF.

  Finance does not dispute that the SERAF payment was made with cash from the LMIHF. However, based on our review, the SERAF Loan for $56 million was funded from two sources: (1) the February 23, 2010 Loan Agreement between the City and the former RDA and (2) from funds borrowed from the 2010 Housing TABs ($12 million and $40 million, respectively, plus all fees and interest incurred). The LMIHF acted as a conduit between the City and the former RDA under the loan agreement. Specifically, the loan agreement states "The City shall repay the [City of San Jose Financing] Authority, from the [LMIHF]" and that "The City's obligation to repay the Authority Loan from the [LMIHF] shall be contingent on the [former Revelopment] Agency's repayment of the SERAF Loan." The obligations to repay the Loan Agreement, as a repayment of the Commercial Paper that was issued, and the principal and interest on the bonds are already listed on the Recognized Obligation Payment Schedule (ROPS) to be paid by the successor agency. Therefore, the item is not a housing asset eligible for transfer.

This is Finance's final determination related to the assets reported on your Form. Except for items disallowed as noted above, Finance is not objecting to the remaining items listed on your Form. Assets transferred deemed not to be a housing asset shall be returned to the successor agency.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Rachel VanderVeen, Administrative Officer, City of San Jose
Ms. Irene Lui, Controller Treasurer, Santa Clara County
Ms. Jacelyn Ma, Property Tax Manager, Santa Clara County
Ms. Manju Beher, Internal Auditor Supervisor, Santa Clara County
California State Controller's Office

EXHIBIT D

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

February 6, 2013

Mr. Richard Keit, Managing Director
City of San Jose
200 East Santa Clara St., 14th Floor Tower
San Jose, CA 95113

Dear Mr. Keit:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

The San Jose Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 11, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the October 15, 2012 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the November 9, 2012 deadline pursuant to HSC section 34179.6 (d). However, Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of Low and Moderate Income Housing Fund (LMIHF) available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Transfers not allowed in the amount of $55.2 million. These transfers were disallowed according to the Housing Asset Transfer (HAT) determination letter submitted by Finance on August 31, 2012. Subsequently, the Agency requested a Meet and Confer session regarding the disputed items. Through the HAT Meet and Confer process, Finance maintains the adjustments made to the HAT list are appropriate. Therefore, the following dissalowed HAT items will be added to the LMIHF asset balance:
    - HAT Exhibit G, Item 1 - Deferred receivable related to a Supplemental Educational Revenue Augmentation Fund loan in the amount of $54.4 million. This item is no longer a receivable to the LMIHF, therefore should not have been transferred. Finance has adjusted the LMIHF asset balance by this amount, however since there is no actual cash involved, Finance will make an offsetting adjustment by the same amount.
    - HAT Exhibit C, Item 4 and HAT Exhibit D, Item 8 - Eden housing loan agreement in the amount of $90,501. This agreement was executed after June 27, 2011. Therefore, the loan agreement is not valid and the LMIHF balance will be adjusted accordingly.

- HAT Exhibit D, Items 1176 through 1195 – rehabilitation loans in the amount of $640,000. These loans were entered into after June 27, 2011. Therefore, these loan agreements are not valid and the LMIHF balance will be adjusted accordingly.

Finance will provide more detail regarding these denied HAT items in a subsequent HAT determination letter.

- Prepaid housing administrative expenses in the amount of $726,214. Pursuant to HSC section 34176 (a) (1), housing administrative expenses are the responsibility of the housing successor entity. Therefore, the successor housing entity returned the prepaid housing administrative expenses on October 31, 2012. As a result, these balances were not included in the DDR's LMIHF asset balance as of June 30, 2012. Therefore, Finance will make a $726,214 adjustment.

  Finance will offset this adjustment by a like amount because it was factored into the notice of insufficient funds for the January through June 2013 period. See the last bullet below for more detail.

- The DDR identified accrued interest in the amount of $1,345,355 as being transferred to the successor housing entitiy. Accrued interest is not eligible for transfer and therefore, Finance will make a $1,345,355 adjustment.

- The California State Controller's Office and Santa Clara County Auditor-Controller's Office approved the notice of insufficient funds for the January through June 2013 period. The County Auditor-Controller estimated a shortfall of $5.4 million inclusive of administrative costs. This amount takes into consideration the $726,214 adjustment required by bullet three above. As a result of the verified insufficiency and to reduce the risk of bond default, Finance is making a $2.1 million adjustment to the LMIHF unencumbered balance. The $2.1 million represents the balance that would have been available after Finance adjustments, absent the verified notice of deficiency.

If you disagree with Finance's adjusted amount of LMIHF balances available for distribution to the taxing entities, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's LMIHF balance available for distribution to the affected taxing entities is $0 (see table on the following page).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	-
Finance Adjustments		
Add:		
Denied HAT items:	$	55,169,561
Disallowed transfer of prepaid expenses:	$	726,214
Disallowed transfer of accrued interest:	$	1,345,355
Reversal of non-cash denied HAT items:	$	(54,439,060)
Retained for ROPS III obligations due to insufficiency:	$	(726,214)
Retained for ROPS III obligations due to insufficiency:	$	(2,075,856)
Total LMIHF available to be distributed:	$	-

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter and Finance's Housing Assets Transfer letter dated August 31, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Rachel VanderVeen, Administrative Officer, City of San Jose
Ms. Irene Lui, Controller Treasurer, Santa Clara County
Mr. Vinod Sharma, Director of Finance Agency, Santa Clara County
Ms. Manju Beher, Internal Auditor Supervisor, Santa Clara County
California State Controller's Office

EXHIBIT E

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

March 14, 2013

Mr. Richard Keit, Managing Director
City of San Jose
200 East Santa Clara St., 14th Floor Tower
San Jose, CA 95113

Dear Mr. Keit:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original LMIHF DDR determination letter dated February 6, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of San Jose Successor Agency (Agency) submitted an oversight board approved Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 11, 2013. Finance issued a LMIHF DDR determination letter on February 6, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer Session was held on February 25, 2013.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance is revising some of the adjustments made in our previous DDR determination letter. Specifically, we are revising the following adjustments:

- Balances transferred in the amount of $1,345,355. Additional information provided by the Agency supported this item is not a cash transfer. The accrued interest transferred is a receivable in connection with the housing loans that were appropriately transferred to the housing entity. Therefore, Finance will no longer adjust the LMIHF DDR balance in the amount of $1,345,355.

- Balances restricted for loan agreements in the amount of $640,000. These loan agreements are between the City and third parties. The Agency is not involved in these contracts. Finance has determined these loan receivables were not included in the original DDR submitted; therefore, there should be no amount to offset within the DDR. Therefore, Finance will no longer adjust the LMIHF DDR balance in the amount of $640,000.

However, Finance continues to believe some of the adjustments made to the DDR's stated balance of LMIHF available for distribution to the taxing entities is appropriate. HSC section 34179.6 (d) authorizes Finance to make these adjustments. We maintain the adjustments continue to be necessary for the following reasons:

- Transfers not allowed in the amount of $55.2 million. These transfers were disallowed according to the Housing Asset Transfer (HAT) determination letter submitted by

Finance on August 31, 2012. Subsequently, the Agency requested a Meet and Confer session regarding the disputed items. Through the HAT Meet and Confer process, Finance maintains the adjustments made to the HAT list are appropriate. Therefore, the following disallowed HAT items will be added to the LMIHF asset balance:

- HAT Exhibit G, Item 1 - Deferred receivable related to a Supplemental Educational Revenue Augmentation Fund loan in the amount of $54.4 million. This item is no longer a receivable to the LMIHF, therefore should not have been transferred. Finance has adjusted the LMIHF asset balance by this amount, however since there is no actual cash involved, Finance will make an offsetting adjustment by the same amount.

- HAT Exhibit C, Item 4 and HAT Exhibit D, Item 8 - Eden housing loan agreement in the amount of $90,501. This agreement was executed after June 27, 2011. Therefore, the loan agreement is not valid and the LMIHF balance will be adjusted accordingly. Finance will offset this adjustment by a like amount because it was factored into the notice of insufficient funds for the January through June 2013 period.

Finance maintains these items are not enforceable obligations. No additional documentation was received from the Agency to support these were obligations of the Agency. Please refer to Finance's February 15, 2013 HAT Meet and Confer Determination letter for more detail. Adjustments to the LMIHF DDR will remain as described above for each item.

In addition, per Finance's LMIHF DDR determination letter dated January 11, 2013, the following items were denied and not contested by the Agency:

- Prepaid housing administrative expenses in the amount of $726,214. Pursuant to HSC section 34176 (a) (1), housing administrative expenses are the responsibility of the housing successor entity. Therefore, the successor housing entity returned the prepaid housing administrative expenses on October 31, 2012. As a result, these balances were not included in the DDR's LMIHF asset balance as of June 30, 2012. Therefore, Finance will make a $726,214 adjustment.

  Finance will offset this adjustment by a like amount because it was factored into the notice of insufficient funds for the January through June 2013 period.

The Agency's LMIHF balance available for distribution to the affected taxing entities continues to be zero (see table on next page).

LMIHF Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	$0
Finance Adjustments	
Add:	
Denied HAT Transfers:	$ 54,529,561
Transfer to Housing Entity not supported:	$ 726,214
Reversal of non-cash HAT transfers:	$ (54,439,060)
Retained for ROPS III due to insufficiency:	(816,715)
Total LMIHF available to be distributed:	$0

This is Finance's final determination of the LMIHF balances available for distribution to the taxing entities.

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter and Finance's Housing Assets Transfer letter dated August 31, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

STEVE SZALAY
Local Government Consultant

cc: Ms. Rachel VanderVeen, Administrative Officer, City of San Jose
Ms. Irene Lui, Controller Treasurer, Santa Clara County
Mr. Vinod Sharma, Director of Finance Agency, Santa Clara County
Ms. Manju Beher, Internal Auditor Supervisor, Santa Clara County
California State Controller's Office

ATTACHMENT B

EXHIBIT F

SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

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

Independent Auditor's Reports
and Basic Financial Statements

For the Year Ended June 30, 2015

mgo | Certified Public Accountants

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SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
(A Component Unit of the City of San José, California)
For the Year Ended June 30, 2015

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Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Agency of the Redevelopment Agency of the City of San José, a component unit of the City of San José (City), California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Successor Agency of the Redevelopment Agency of the City of San José's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Successor Agency of the Redevelopment Agency of the City of San José as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596

www.mgocpa.com

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015 on our consideration of the Successor Agency of the Redevelopment Agency of the City of San José's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Successor Agency of the Redevelopment Agency of the City of San José's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 13, 2015

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
(A Component Unit of the City of San José, California)
Statement of Fiduciary Net Position
June 30, 2015

Assets:		
Current assets:		
Cash and cash investments	$	28,382,478
Receivables:		
Due from the City of San José		20,000
Other, net of $22,310		1,057,714
Restricted cash and investments		134,506,941
Total current assets		163,967,133
Noncurrent assets:		
Advances to the City of San José		464,103
Accrued interest		6,111,763
Loans receivable, net		17,773,145
Deposits		66,202
Property held for resale		20,606,336
Capital assets:		
Nondepreciable		83,602,823
Depreciable, net		63,709,203
Total noncurrent assets		192,333,575
Total assets		356,300,708
Deferred outflows of resources:		
Loss on deferred amount on refunding		29,806,405
Liabilities:		
Current liabilities:		
Due to the City of San José		314,676
Accounts payable		5,280,304
Accrued salaries and benefits		157,139
Accrued interest payable		37,088,521
Pass-through payable to the County of Santa Clara		44,096,973
Unearned revenues		155,600
Deposits		8,900
Total current liabilities		87,102,113
Noncurrent liabilities:		
Due within one year		263,872,712
Due in more than one year		1,920,832,868
Total noncurrent liabilities		2,184,705,580
Total liabilities		2,271,807,693
Net position held in trust	$	(1,885,700,580)

See accompanying notes to the basic financial statements

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
(A Component Unit of the City of San José, California)
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015

Additions:		
Redevelopment property tax revenues	$	199,711,970
Investment income		1,473,263
Rent		804,316
Charges for current services		459,739
Development fees		209,227
Gain on sales of property, net		4,979,284
Other		1,757,316
Total additions		209,395,115
Deductions:		
General and administrative:		
Salaries, wages and benefits		752,679
Materials, supplies and other services		2,896,321
Project expenses		3,391,499
Pass-through amount to the County of Santa Clara		29,901,648
Capital contributions to the City of San José		78,888,159
Depreciation		5,679,606
Interest on debt		93,944,384
Total deductions		215,454,296
Change in net position		(6,059,181)
Net position, beginning of year		(1,879,641,399)
Net position, end of year	$	(1,885,700,580)

See accompanying notes to the basic financial statements.

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 1 – REPORTING ENTITY

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

On June 28, 2011, Assembly Bill X1 26 ("AB X1 26") was enacted. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. On June 28, 2012, AB 1484, which amended AB X1 26, was enacted. AB X1 26, as so amended, is referred to herein as the Redevelopment Dissolution Law. The legislation provides for successor agencies and oversight boards to be responsible for overseeing the dissolution process and the wind down of redevelopment activity. On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency of the City of San José ("SARA"), effective February 1, 2012. SARA is a component unit of the City. Also upon dissolution, the City Council elected to retain the housing assets, functions and powers previously performed by the Agency.

The SARA is a separate public entity from the City, subject to the direction of a Board consisting of the Mayor and the other members of the City Council. The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an Oversight Board. The Oversight Board is comprised of seven member representatives from local government bodies: two appointed by the Mayor; two appointed by the County of Santa Clara ("County"); one appointed by the County Superintendent of Education; one appointed by the Chancellor of California Community Colleges; and one appointed by the largest special district taxing entity in the Merged Project Area (currently the Santa Clara Valley Water District).

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

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Basis of Accounting

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

Investments

The SARA records investment transactions on the trade date. Investments are reported at fair value in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount that the SARA could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices. Investment income, including unrealized gains and losses, is recognized as revenue.

Redevelopment Property Tax Trust Fund Revenues

The Redevelopment Dissolution Law requires the County Auditor-Controller to collect funds formerly received by the Agency as tax increment. After deducting its administration costs, the Auditor-Controller must distribute the collected funds into SARA's RPTTF (Redevelopment Property Tax Trust Fund). The Redevelopment Dissolution Law requires the County Auditor-Controller to distribute funds from the RPTTF twice each year as follows:

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

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

The County Auditor-Controller administers the RPTTF for the benefit of local taxing agencies and the holders of the SARA's enforceable obligations. The Redevelopment Dissolution Law requires the Auditor-Controller to disburse funds from the RPTTF in the following order: (1) for payments local agencies and schools would have received from the collected revenue before dissolution and for any pass-through payments pursuant to agreement; (2) for payment of the former redevelopment agency's enforceable obligations, (3) for payment of the SARA's administrative expenses, and (4) to local taxing agencies.

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

The hierarchy of payment for enforceable obligations on the SARA's ROPS is as follows: debt service on tax allocation bonds is paid first; debt service on revenue bonds is paid second; all other obligations are paid third; and the SARA's administrative costs are paid last. The maximum administrative cost allowance is the greater of $250,000 or three percent of the revenue allocated to the SARA.

Restricted Assets

Assets are restricted for specified uses by bonded debt requirements, grant provisions or other requirements and their use is limited by applicable bond covenants or agreements.

Property Held for Resale

Property held for resale is recorded as an asset at the lower of cost or net realizable value. The SARA recorded certain capital assets originally received from the Agency as property held for resale. On September 8, 2014, the State Department of Finance ("DOF") approved the Long-Range Property Management Plan ("LRPMP"), which specifies the disposition of various SARA properties, and in fiscal year 2014-2015, the SARA initiated the sale of non-governmental purpose properties.

Capital Assets

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

Original Issue Discounts, Premiums, and Refundings

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

Use of Estimates

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

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

New Pronouncements

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

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Application of Statement No. 72 is effective for the SARA's fiscal year ending June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Application of Statement No. 76 is effective for the SARA's fiscal year ending June 30, 2016.

NOTE 3 – CASH AND INVESTMENTS

The SARA's cash and investments consist of the following at June 30, 2015:

Cash & Investments	Amount
Cash and Investments	$ 28,382,478
Restricted Cash and Investments	134,506,941
Total Cash and Investments	$ 162,889,419

Investments

The SARA follows provisions of the California Government Code and the City's Municipal Code as set forth in the City's Investment Policy. The City Council adopted its Investment Policy (the "Policy") dated April 2, 1985, and last amended on June 9, 2015, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy.

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

The following table identifies the limitations that are authorized by the Policy on the SARA's investment types as of June 30, 2015:

Authorized Investment Type	Maximum Maturity	Maximum Percentage or Dollar of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Supranationals	5 years	20% *	None
Bankers' Acceptances	180 days	20% *	5% *
Insured Time Deposits	3 years *	$10 million *	5% *
Uninsured Time Deposits	18 months *	$10 million *	5% *
Commercial Paper	270 days	20% *	5% *
Negotiable Certificates of Deposit	180 days *	20% *	5% *
Repurchase Agreements	92 days *	50% *	10% *
Reverse Repurchase Agreements	30 days *	Lesser of $25 million or 20% *	None
Medium-Term Corporate Notes	3 years *	20% *	5% *
California Local Agency Investment Fund	None	State Treasurer Limit	None
Money Market Mutual Funds	None	20%	10%
Municipal Bonds - Category 1 (City)	5 years	10% *	5% *
Municipal Bonds - Category 2 (State of CA)	5 years	5% *	5% *
Municipal Bonds - Category 3 (CA Issuers)	5 years	5% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	5% *	5% *
Investment Agreements	None	None	None
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)	5 years	10%*	None
Asset Backed Securities (ABS)	5 years	5% *	None

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

Other restrictions applicable to the SARA's investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Agriculture Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Investment in Farmer Mac may not exceed 10% of the total portfolio.
- Purchases of Supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated "Aa3, AA or AA" or higher by Moody's, S&P, or Fitch. No rating may be lower than any of the rating listed in the preceding sentence.
- Purchases of Bankers' Acceptances ("BAs") are limited to issues by domestic U.S. or foreign banks. The outstanding debt of the bank or its holding company must be rated "A3, A- or A-" or higher by Moody's, S&P, or Fitch. No rating may be lower than any of the ratings listed in the preceding sentence.

- Deposits up to the Federal Deposit Insurance Corporation ("FDIC") of $10,000,000 may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Depositories now must have a short-term rating of "P1, A1, or F1" or better by two of the three nationally recognized rating services: Moody's, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated "A3, A-, or A-" or higher by Moody's, S&P, or Fitch, respectively. Deposits shall be collateralized in the manner prescribed by State law for depositories.

- Commercial paper eligible for investment must be rated "P1, A1 or F1" or better by two of the three nationally recognized rating services; Moody's, S&P or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of $500,000,000 and shall issue debt, other than commercial paper, if any, that is rated "A3, A- or A-" or higher, respectively, by Moody's, S&P or Fitch.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer short-term rating of "P1, A1, or F1" or better by two of the three nationally recognized rating services: Moody's, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated "A3, A-, or A-" or higher by Moody's, S&P or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.

- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of the repurchase agreement's face value.

- Reverse repurchase agreements under the Policy are limited to the lesser of $25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.

- Medium-term corporate notes eligible for investment must be rated "A3, A- or A-" or better by two of the three nationally recognized rating services; Moody's, S&P, or Fitch, respectively.

- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is $50,000,000.

- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission ("SEC") and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than

- five years of experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of $500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and must be maintained at no less than $1.00 per share.
- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be rated "A3, A- or A-" or better by two of the three nationally recognized rating services; Moody's, S&P, or Fitch, respectively.
- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a provider's inability to meet its contractual obligations.
- Asset backed securities must be AAA-rated or better by a nationally recognized rating service. The issuer of any asset backed security must have an "A3, A- or A-" rating or better by Moody's, S&P, or Fitch, respectively, of its underlying debt.

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

The SARA also has investments subject to provisions of the bond indentures of the former Agency's various bond issues. According to the bond indentures, the SARA is permitted to invest in the City's cash and investment pool, LAIF, obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

At June 30, 2015, the SARA invested an amount of $43,399,636 with LAIF, which is comprised of $18,103,387 restricted for future debt service payments, $12,660,605 from the 2003 Tax Allocation Bonds reserve account, $2,548,304 from the 2008 Tax Allocation Bonds reserve accounts, $26,247 from 2008A Tax Allocation Bonds project reserve account, and $10,061,093 from the 2010 Housing Set-Aside Bonds reserve account. The amounts invested in LAIF can be withdrawn on demand subject to LAIF provisions upon request of the trustee. The weighted average maturity of LAIF was 239 days at June 30, 2015.

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2015 was approximately $21.5 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The total amount recorded by all public agencies in PMIA at June 30, 2015 was approximately $69.6 billion and of that amount, 97.92% was invested in non-derivative financial products and 2.08% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the SARA's position in the pool.

Custodial Credit Risk

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

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

As of June 30, 2015, $14,121,335 of the SARA's bank balance was exposed to custodial credit risk because it was uninsured beyond the Federal Deposit Insurance Corporation ("FDIC") insurance coverage limit of $250,000. However, all uninsured balances are collateralized by the pledging financial institutions as required by Section 52652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent, in the SARA's name. The actual book balance amounted to $14,623,403 at June 30, 2015.

The SARA invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the SARA employs the trust department of a bank or trustee as the custodian of certain SARA investments, regardless of their form.

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The SARA's investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

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The following schedule indicates the interest rate and credit risk of SARA's investments at June 30, 2015:

	Moody's Credit Rating	Maturity (in Days) Under 30	31-180	181-365	Fair Value
Investments:					
State of California Local Agency Investment Fund	Not Rated	$ -	$ -	$ 43,399,636	$ 43,399,636
Money Market Mutual Fund	Aaa	12,131	6,227,873	-	6,240,004
Commercial Paper	P1	29,963,003	2,261,390	-	32,224,393
Federal Home Loan Bank - Discounts	Aaa	11,202,776	55,198,896	-	66,401,672
Subtotal investments		$ 41,177,910	$ 63,688,159	$ 43,399,636	148,265,705
Certificates of Deposit					4,023,171
Bank Deposits					10,600,232
Petty Cash					311
Total cash and investments					$ 162,889,419

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the SARA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. The SARA invested in MUFG Union Bank Discount Commercial Paper in the amount of $29,963,003, which represented 20.2% of the SARA's investments at June 30, 2015.

Restricted Cash and Investments with Fiscal Agents

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and temporary investments for unexpended bond proceeds. At June 30, 2015, the amounts held by the trustees aggregated to $130,162,318. All restricted investments held by trustees at June 30, 2015 were invested in LAIF, money market mutual funds, commercial paper, and federal home loan bank-discount, and were in compliance with the bond indentures.

Restricted Investments Held in Escrow Accounts

Pursuant to contracts and agreements made by the SARA, certain funds are required to be held in escrow accounts that remain the property of the SARA; however, their use is restricted for a particular purpose, which at June 30, 2015, are as follows:

Project/Program	Amount
JPMorgan Liquidity Reserve	$ 4,000,646
HUD Section 108 Loans Debt Services Account	321,452
Center for Employment Training Toxic Fund	22,525
Total other restricted deposits	$ 4,344,623

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NOTE 4 – LOANS RECEIVABLE

Composition of loans receivable at June 30, 2015 is as follows:

	Description	Loan Balance
1	Parcels of land sold to developers	$ 1,728,360
2	HUD Section 108 loans	2,174,038
3	Rehabilitation of apartment complex	216,351
4	Historic home relocation loans	2,261,979
5	Rehabilitation of residential units	150,597
6	Commercial building loans	9,478,927
7	Residential housing projects	11,943,506
8	Rehabilitation of historic hotel building	5,265,000
9	Small business loan program	106,208
	Total loans	33,324,966
	Accrued interest receivable	6,111,763
	Total loans and interest receivable	39,436,729
	Less allowance for doubtful accounts	(15,551,821)
	Loans and interest receivable, net	$ 23,884,908

1. Over the years, parcels of land had been sold to commercial real estate developers in various mixed-use projects. In one downtown residential condominium project (360 South Market Street, San Jose, CA), a non-interest bearing promissory note was recorded in 2007 whereby the Agency deferred a portion of the land sale proceeds until the first residential unit closed escrow. On April 26, 2011, the loan agreement was amended giving the developer the right to convert the project from for-sale to rental. The amended agreement also gave the developer the authority to subsequently convert any units back to for-sale units. The principal loan and interest are due and payable when all proceeds of sold condominium units exceed an invested capital threshold. At June 30, 2015, the amount due from the developer was $1,728,360. A provision for doubtful accounts was recorded for the entire loan balance because the likelihood of the payment criteria being met is questionable in the foreseeable future.

2. In 1997 and 2007, the Agency extended loans to developers using funds obtained from the U.S. Department of Housing and Urban Development Section 108 loan proceeds. These loans have a 20-year repayment schedule, bear interest at an annual rate of 3%, and require principal and interest payments to the SARA on a monthly basis. At June 30, 2015, the amount due from the developers was $2,174,038. An allowance for doubtful accounts in the amount of $1,199,817 was made to account for the principal balance of a loan due to amounts in arrears. The Agency receives interest payments from developers, therefore, no allowance on interest is necessary.

3. In 1999, the Agency extended a loan to a developer for rehabilitation of an apartment complex. The loan to the developer has a 19-year repayment schedule, bears interest at an annual rate of 3%, and requires principal and interest payments to the SARA on a monthly basis. At June 30, 2015, the amount due from the developer was $216,351.

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4. The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were provided to families and a non-profit agency, which provided the interior and exterior improvements. The loans are to be paid only in the event of non-compliance with the terms and conditions of the agreements. At the time residential occupancy of the house ceases or the property is transferred to anyone other than the owner by any method other than inheritance, the unamortized portion of the loan shall become due and payable in full. Unpaid principal shall bear an interest rate of 8% per annum. The total loans of $2,261,979 have been offset with a provision for doubtful accounts as it is anticipated that these loans will be fully amortized over the period of the loan.

5. The Agency extended various bank-assisted loans to aid first-time homebuyers and to aid with the rehabilitation of homes. The loans accrue interest at various interest rates and are due when the related properties are sold. At June 30, 2015, the net amount due from such loans was $150,597. An allowance for doubtful accounts in the amount of $150,597 was made for potential write-offs.

6. The Agency extended various loans to property owners for the rehabilitation and improvements of commercial buildings. The loans are due within 10 to 25 years. Except for the Genesis Group, these loans do not accrue interest. At June 30, 2015, the total amount due from such loans was $9,478,927. An allowance for doubtful accounts in the amount of $4,839,860 was made for potential write-offs.

7. The Agency entered into Disposition and Development Agreements with various developers for the construction of residential housing units in redevelopment project areas. The funding assistance extended by the Agency was converted to loans bearing an interest rate ranging from 2% to 4%. The loans are expected to be repaid upon the sale of the residential housing units. At June 30, 2015, the amount due from the developers was $11,943,506.

8. In May 2005, the Agency amended and restated a Disposition and Development Agreement with a developer recognizing a loan for the rehabilitation of a historic hotel building. The loan has a 60-year repayment schedule, bears no interest, and requires principal payments on a semi-annual basis starting in fiscal year 2020-2021. At June 30, 2015, the amount due from the developer was $5,265,000. A provision for doubtful accounts was provided for the entire loan balance due to the extended timeline before payments commence.

9. In June 2002, the Agency Board approved the creation of the Small Business Loan Program to be administered by the City's Office of Economic Development ("OED") and to be funded by the Agency with non-tax increment funds. The program offered reduced-rate loans to small businesses located in Downtown and Neighborhood Business Districts. In July 2008, administration of the program was transferred from OED to the Agency. The Agency has not funded the program since 2008. At June 30, 2015, the outstanding loans totaled $106,208. An allowance for doubtful accounts in the amount of $106,208 was made for potential write-offs.

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NOTE 5 – PROPERTY HELD FOR RESALE

A summary of changes of the property held for resale during the year ended June 30, 2015 is as follows:

Property Description	July 1, 2014	Addition	Disposal	June 30, 2015
N. San Pedro Housing site	$ 18,272,701	$ 823,635	$ -	$ 19,096,336
East Santa Clara Street Development site	3,500,940	-	(3,500,940)	-
Hoffman Via Monte (1)	400,000	260,000	-	660,000
Central Place Garage (2)	300,000	550,000	-	850,000
Total property held for resale	$ 22,473,641	$ 1,633,635	$ (3,500,940)	$ 20,606,336

On June 22, 2015, the SARA sold the East Santa Clara Street Development site for $12,800,000 and recognized a gain, after closing and other costs of $38,076, in the amount of $9,260,984 for the fiscal year ended June 30, 2015. The proceeds from the sale was used to repay the City's advance (see Note 8).

(1) Valuation is based on the appraisal report prepared by Gregory D. Rinehart & Associates on December 9, 2014.
(2) Valuation is based on the appraisal report prepared by Carneghi and Partners, Inc. on November 17, 2014.

NOTE 6 – CAPITAL ASSETS

A summary of changes in the SARA's capital assets for the year ended June 30, 2015, is as follows:

	July 1, 2014	Addition	Disposal/ Transfer	Reclassification	June 30, 2015
Capital assets, not being depreciated:					
Land	$ 86,862,828	$ -	$ (4,281,701)	$ 45,000	$ 82,626,128
Construction in progress	976,695	-	-	-	976,695
Total capital assets, not being depreciated	87,839,523	-	(4,281,701)	45,000	83,602,823
Capital assets, being depreciated:					
Buildings	149,620,817	-	(80,361,416)	13,539,772	82,799,173
Building and other Improvements	23,211,813	-	(26,440,119)	3,336,291	107,985
Equipment	1,144,956	-	-	-	1,144,956
Total capital assets, being depreciated	173,977,586	-	(106,801,535)	16,876,063	84,052,114
Less accumulated depreciation:					
Buildings	17,869,239	4,130,397	(16,388,247)	13,539,772	19,151,161
Building and other Improvements	6,686,423	1,549,209	(11,525,129)	3,336,291	46,794
Equipment	1,144,956	-	-	-	1,144,956
Total accumulated depreciation	25,700,618	5,679,606	(27,913,376)	16,876,063	20,342,911
Total capital assets, being depreciated, net	148,276,968	(5,679,606)	(78,888,159)	-	63,709,203
Total capital assets, net	$ 236,116,491	$(5,679,606)	$(83,169,860)	$ 45,000	$147,312,026

Various Agency-owned real estate assets with an aggregate book value of $19,231,000 were used to secure the Letters of Credit obtained from JPMorgan Chase Bank ("JPMorgan") supporting the Agency's 1996 and 2003 variable rate revenue bonds. As security for payments due to the County of Santa Clara under the Settlement Agreement executed in March 2011, the Agency also (i) executed and recorded for the benefit of the County, subordinated Deeds of Trust on various Agency-owned real estate asset, (ii) assigned to the County one-half (1/2) of the Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties, with an aggregate book value of $19,096,336.

In addition, the Convention Center – South Hall, José Theatre, and Arena Lot 5A were used to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development.

Prior to the dissolution of the Agency, the Agency capitalized costs for design and construction of improvements on City-owned properties used for public purposes including the Martin Luther King Library and the Edenvale Community Center. These improvements were transferred to the SARA upon dissolution and were not included in the Long-Range Property Management Plan approved by the DOF as the SARA did not own the property on which these improvements were made. As such, the SARA transferred these improvements with a net book value of $78,888,000 to the City when it assumed responsibility for the maintenance of these assets during the year ended June 30, 2015.

On October 6, 2014, Century Residential LLC paid off the promissory notes in the amount of $4,521,887, and exercised the option to purchase Century Housing land from the City for $1. As a result, a loss of $4,281,700 from the sale of the asset was recorded.

On August 27, 2015, the SARA Oversight Board approved the Amended Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the asset disposition process, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. This action has been reviewed and approved by the DOF.

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NOTE 7 – DEBT

Long-term Debt

The following is a summary of long-term debt of the SARA at June 30, 2015 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2015 Balance
Senior Tax Allocation Bonds:							
1993 Merged Refunding	Advance refunding	$ 692,075	12/1/1993	8/1/2015	6.00%	$18,195	$ 18,195
1997 Merged	Merged area project	106,000	3/27/1997	8/1/2028	5.50 - 5.63%	$10 - 715	4,795
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	50 - 7,165	12,920
2002 Merged	Merged area project	350,000	1/24/2002	8/1/2015	4.50%	$11,290	11,290
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00 - 5.00%	$25 - 34,100	126,650
2004 Merged Refunding Series A	Refunding TABs	281,985	5/27/2004	8/1/2019	4.25 - 5.25%	$9,580 - 31,900	116,285
2005 Merged Refunding Series A, B	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20 - 5.00%	$295 - 30,435	135,210
2006 Merged Series A-T, B	Merged area project	81,300	11/14/2006	8/1/2035	4.50 - 5.65%	$0 - 27,000	80,300
2006 Merged Refunding Series C, D	Refunding TABs	701,185	12/15/2006	8/1/2032	3.75 - 5.00%	$710 - 141,610	697,025
2007 Merged Refunding Series A-T, B	Merged area project	212,930	11/7/2007	8/1/2036	4.25 - 5.10%	$2,400 - 26,640	199,200
2008 Merged Series A, B	Merged area project	117,295	11/13/2008	8/1/2035	6.13 - 7.00%	$3,925 - 11,300	97,155
1997 Housing Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75 - 5.85%	$415 - 3,670	15,955
2003 Housing Series J/K	Low-moderate income housing	69,000	7/10/2003	8/1/2029	3.80 - 5.25%	$2,270 - 3,965	32,855
2005 Housing Series A/B	Low-moderate income housing	129,720	6/30/2005	8/1/2035	3.75 - 5.46%	$695 - 10,570	110,575
2010 Housing Series A/B	Low-moderate income housing	67,405	4/15/2010	8/1/2035	4.00 - 5.50%	$0 -7,390	57,795
Total Senior Tax Allocation Bonds							1,716,205
Subordinate Tax Allocation Bonds (TAB):							
1996 Merged Area Revenue Series A/B	Merged area projects	59,000	6/27/1996	7/1/2026	Variable	$2,600 - 4,000	39,200
2003 Merged Area Revenue Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	$1,425 - 6,505	42,710
2010 Housing Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	$3,060 - 5,210	80,850
Total Subtotal Subordinate Tax Allocation Bonds							162,760
Other Long-Term Debt:							
Pledge Agreement - Revenue Bonds 2001A	4th/San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.50 - 5.25%	$1,895 - 3,205	27,985
Reimbursement Agreement - Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	5.00%	$10,530 - 14,730	100,260
CSCDA 2005 ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2005	8/1/2016	5.67%	$1,905	1,905
HUD Section 108 Loan	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	$435 - 465	900
HUD Section 108 Loan (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	$700 - 1,135	9,930
HUD Section 108 Loan (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	$920 - 1,570	13,402
City of San José (SERAF) Loan	Fund the State's SERAF Payment	52,000	2010-2011	6/30/2015	Variable	$52,905,352	52,905
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2016	Variable	$12,974,578	12,975
City of San José - Commercial Paper Program	Fund the housing projects	14,227	2010-2012	6/30/2018	Variable	$4,722 - 4,750	14,227
Other Long-Term Obligation - County Settlement Agreement	Settlement Agreement	29,685	6/30/2011	6/30/2017	Variable	$4,712	29,685
City of San José - Reimbursement Agreement	Reimbursement Agreement	15,446	2014-2015	6/30/2016	LAIF Rate	$0-15,446	15,446
Total Other Long-Term Debt							279,620
Total Long-Term Debt							$ 2,158,585

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The following summarizes the changes in long-term debt and other obligations for the year ended June 30, 2015 (in thousands):

	July 1, 2014	Additions	Reductions	June 30, 2015	Amount Due One Year
Senior Tax Allocation Bonds:					
1993 Merged Area Refunding	$ 18,195	$ -	$ -	$ 18,195	$ 18,195
1997 Merged	5,155	-	(360)	4,795	370
1999 Merged	12,920	-	-	12,920	-
2002 Merged	13,165	-	(1,875)	11,290	11,290
2003 Merged	127,545	-	(895)	126,650	905
2004 Merged Refunding Series A	142,640	-	(26,355)	116,285	9,580
2005 Merged Refunding Series A, B	156,010	-	(20,800)	135,210	12,505
2006 Merged Series A-T, B	80,300	-	-	80,300	-
2006 Merged Refunding Series C, D	697,705	-	(680)	697,025	710
2007 Merged Refunding Series A-T, B	201,475	-	(2,275)	199,200	2,400
2008 Merged Series A, B	100,890	-	(3,735)	97,155	3,925
1997 Housing Series E	16,340	-	(385)	15,955	415
2001 Housing Series J	30,180	-	(2,515)	27,665	2,635
2003 Housing Series K	5,435	-	(245)	5,190	255
2005 Housing Series A	10,445	-	-	10,445	-
2005 Housing Series B	103,515	-	(3,385)	100,130	3,535
2010 Housing Series A	56,710	-	-	56,710	500
2010 Housing Series B	2,610	-	(1,525)	1,085	1,085
Subtotal Senior Tax Allocation Bonds	1,781,235	-	(65,030)	1,716,205	68,305
Subordinate Tax Allocation Bonds:					
1996 Merged Series A, B	41,600	-	(2,400)	39,200	2,600
2003 Merged Revenue Series A, B	44,055	-	(1,345)	42,710	1,425
2010 Housing Series C	83,590	-	(2,740)	80,850	80,850
Subtotal Subordinate Tax Allocation Bonds	169,245	-	(6,485)	162,760	84,875
Other Long-Term Debt:					
Pledge Agreement - Revenue Bonds 2001A	29,880	-	(1,895)	27,985	1,980
Reimb Agreement - Refunding Rev Bonds 2001F	110,300	-	(10,040)	100,260	10,530
CSCDA CRA/HRAF Loan 2005	2,355	-	(2,355)	-	-
CSCDA CRA/HRAF Loan 2006	3,705	-	(1,800)	1,905	1,905
HUD Section 108 Loan	1,305	-	(405)	900	435
HUD Section 108 Loan (CIM)	10,600	-	(670)	9,930	700
HUD Section 108 Loan (Story & King)	14,272	-	(870)	13,402	920
City of San José - SHRAF Loans (Principal)	64,816	-	-	64,816	64,816
City of San José - SHRAF Loans (Interest)	920	144	-	1,064	1,064
City of San José - Commercial paper program	14,227	-	-	14,227	4,750
Other Long-Term Obligation - County Settlement Agreement (Principal)	23,562	-	-	23,562	14,137
Other Long-Term Obligation - County Settlement Agreement (Interest)	-	6,123	-	6,123	6,123
City of San José - Reimbursement agreement (Principal)	24,311	16,752	(25,662)	15,401	-
City of San José - Reimbursement agreement (Interest)	15	30	-	45	-
Subtotal Other Long-Term Debt	300,268	23,050	(43,697)	279,620	107,360
Subtotal Long-Term Debt before Unamortized	2,250,748	23,050	(115,212)	2,158,585	260,540
Issuance Premium (discount), Net	30,048	-	(3,927)	26,121	3,333
Total Long-Term Debt Payable	2,280,796	23,050	(119,140)	2,184,706	263,873
Environmental Remediation Obligation	337	-	(337)	-	-
Total Long-Term Obligations	$ 2,281,133	$ 23,050	$ (119,477)	$ 2,184,706	$ 263,873

Historically, upon receipt of property tax increment, the Agency calculated 80% and 20% amounts of tax increment and would then transfer the 20% portion to the Low and Moderate Income Housing Fund held by the City, as required by the California Health and Safety Code. The previous requirement to bifurcate the tax increment into the 80% and 20% portions was eliminated in the Redevelopment Dissolution Law. However, in order to maintain compliance with bond indentures secured by both 80% and 20% tax increment, the SARA continues bifurcating tax increment into 80% and 20% portions on an ongoing basis and segregating the funds accordingly until all annual senior debt service obligations have been satisfied.

Senior Merged Area Tax Allocation Bonds

The Merged Area Tax Allocation Bonds ("TABs"), which are comprised of Series 1993, Series 1997, Series 1999, Series 2002, Series 2003, Series 2004A, Series 2005A/B, Series 2006A/B, Series 2006C/D, Series 2007A-T/B and Series 2008A/B, are all secured primarily by a pledge of redevelopment property tax revenues (i.e., former tax increment), consisting of a portion of all taxes levied upon all taxable properties within each of the tax generating redevelopment project areas constituting the Merged Area Redevelopment Project, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2015, assuming 1% growth in assessed value throughout the term of each constituent project area and excluding debt service override levies as the SARA is not receiving the levies from the County currently, the total accumulated 80% redevelopment property tax revenue through the period of the bonds would be approximately $3,169,441,000 (Urban Analytics, December 2014). These revenues have been pledged until the year 2036, the final maturity date of the bonds. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2015 is approximately $2,236,327,000. The 80% redevelopment property tax revenue recognized and received for non-housing senior debt during the year ended June 30, 2015 in the amount of $132,932,534 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the Senior TABs amounted to $131,491,059 for the year ended June 30, 2015.

Senior Housing Set-Aside Tax Allocation Bonds

Housing Set-Aside Tax Allocation Bonds (comprised of Series 1997E, Series 2003J/K, Series 2005 A/B, and Series 2010 A-1, A-2 & B, collectively the "Senior Housing TABs") were issued to finance affordable housing projects and are secured by a pledge of and lien upon the 20% of redevelopment property tax revenue (i.e., former tax increment) that was set-aside to finance the low and moderate income housing activities.

As of June 30, 2015, assuming 1% growth in assessed value throughout the term of each constituent project area and excluding debt service override levies as the SARA is not receiving the levies from the County currently, the total accumulated 20% tax increment revenue through the period of the bonds would be approximately $840,719,000 (Urban Analytics, December 2014). These revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Senior Housing Set-Aside Tax Allocation Bonds and Subordinate Tax Allocation Bonds as of June 30, 2015 is approximately $446,936,000. The 20% redevelopment property tax revenue recognized and received during the year ended June 30, 2015 was $34,301,000 to cover current and future debt service and the reserve requirement. The total debt service payments on senior housing set-aside tax allocation bonds amounted to $19,626,021 for the year ended June 30, 2015.

Subordinate Tax Allocation Bonds – Variable-Rate

1996 Merged Area Revenue Bonds – In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B (collectively, the "1996A/B Bonds), for $29,500,000 each, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996 Bonds are subordinate to the TABs.

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The 1996A/B Bonds currently have a flexible rate of interest in callable commercial paper mode. The total interest on the 1996A/B Bonds amounted to $45,566 for the year ended June 30, 2015. At June 30, 2015, the interest rate was 0.10% for the 1996A Bonds and 0.12% for the 1996B Bonds.

2003 Merged Area Revenue Bonds – In August 2003, the Agency issued Merged Area Revenue Bonds Series A and Series B (collectively, the "2003A/B Bonds"), for an aggregate $60,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003 Bonds are ratably and equally secured by a pledge of the subordinated revenues and are subordinate to the debt service payment of the Senior Obligations of the SARA.

The 2003A/B Bonds currently have a flexible rate of interest in callable commercial paper mode. The total interest on 2003A/B Bonds amounted to $89,547 for the year ended June 30, 2015. As of June 30, 2015, the interest rate was 0.33% for the taxable 2003A Bonds and 0.10% for the 2003B Bonds.

These variable-rate revenue bonds (1996 and 2003 Bonds) are payable upon maturity at a purchase price equal to principal plus accrued interest. The SARA's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the SARA's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

Under the reimbursement agreements related to these credit facilities, the trustee is authorized to draw an amount sufficient to pay the purchase price of bonds that have been tendered and have not otherwise been remarketed. The credit facilities that support the variable-rate bonds are as follows:

	Balance June 30, 2015 (in thousands)	Credit Facility Description	
		Provider	Expiration Date
Redevelopment Agency Revenue Bonds:			
1996 Merged Series A	$ 19,600	JPMorgan Chase Bank, N. A.	3/31/2017
1996 Merged Series B	19,600	JPMorgan Chase Bank, N. A.	3/31/2017
2003 Merged Revenue Series A	27,710	JPMorgan Chase Bank, N. A.	3/31/2017
2003 Merged Revenue Series B	15,000	JPMorgan Chase Bank, N. A.	3/31/2017
Total variable rate revenue bonds	$ 81,910		

In connection with the issuance of the 1996A/B Bonds and 2003A/B Bonds, on April 4, 2014, JPMorgan delivered amendments to the letters of credit ("LOCs") and reimbursement agreements for each series of bonds. These amendments included an extension of the Letters of Credit, which were set to expire on June 1, 2014, to March 31, 2017, and a lowering of the annual commitment fee from 2.80% to 2.55% effective June 1, 2014. JPMorgan required the interest rate to continue as a flexible rate in callable commercial paper mode.

In the event the LOCs are not renewed or a substitute LOC cannot be obtained from another financial institution the full amount of the outstanding 1996A/B Bonds and 2003A/B Bonds becomes "due and payable". In the event the LOC is not extended and insufficient funds exist to pay the amount due and payable, the interest rate on the bonds increases to a default rate of 11.5%.

The SARA is required to pay the credit facility provider an annual commitment fee for each credit facility at 2.55%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility. In addition, in fiscal year 2010, the former Agency made the required deposit with JPMorgan, a liquidity reserve in the amount of $5 million as an added source of security for the bank. Parcels of the former Agency owned land and the California Theatre were also used to secure the Letters of Credit (see Note 6 – Capital Assets).

Under the amended reimbursement agreements, the reserve requirement is based on the debt service coverage ratio (DSCR) and is reduced as the DSCR increases. On April 11, 2014, the SARA paid down $1,000,000 in principal on the Series 2003A Bonds utilizing the liquidity reserve. The liquidity reserve balance is $4,000,646 as of June 30, 2015, of which $4,000,000 stands as the reserve requirement.

2010 Housing Set-Aside Tax Allocation Bonds – On April 29, 2010, the Agency issued $93,000,000 in Taxable Subordinate Housing Set-Aside Tax Allocation Variable Rate Bonds, Series 2010C (the "2010C Bonds") through a direct purchase by Wells Fargo Bank. The 2010C Bonds were used to (1) refinance the Bank of New York Term Loan and (2) finance and refinance the City's gap loans made or to be made in connection with certain affordable housing developments. The 2010C Bonds were secured by 20% housing set-aside tax allocation revenues on a basis subordinate to the senior bonds and were issued as multi-modal, variable rate bonds with a taxable interest rate that resets weekly. The 2010C Bonds have a single maturity anticipated to be no later than August 1, 2035, but with a scheduled Mandatory Purchase Date of April 29, 2013 and mandatory sinking fund redemption payments on August 1 of each year.

The 2010C Bonds were directly purchased by Wells Fargo Bank, therefore, the bond indenture did not require a credit facility to support the debt service payments until the bank's Mandatory Purchase Date of April 29, 2013, or such other date agreed to in writing by the SARA and Wells Fargo Bank. On August 15, 2012, the SARA and Wells Fargo Bank agreed to forbear from exercising its rights and remedies under the Continuing Covenant Agreement and Fiscal Agent Agreement, due to a Moody's downgrade, through November 15, 2012, and the Forbearance Agreement was subsequently extended three more times to coincide with interim extensions of the Mandatory Purchase Date.

On September 12, 2013, Wells Fargo Bank and the SARA entered into an Amended and Restated Continuing Covenant Agreement pursuant to which Wells Fargo Bank and the SARA agreed to extend the Mandatory Purchase Date for the 2010C Bonds to April 29, 2016. The SARA expects to extend the Mandatory Purchase Date in fiscal year 2015-2016. Pursuant to the Amended and Restated Contingency Covenant Agreement, the interest rate is equal to the sum of one-month LIBOR plus an applicable spread of 2.60%. At June 30, 2015, the interest rate was 3.36%.

4th and San Fernando Streets Parking Facility Agency Pledge Agreement

In March 2001, the City of San José Financing Authority (the "Financing Authority"), issued Revenue Bonds, Series 2001A in the amount of $48,675,000 to finance the construction of the 4th & San Fernando Parking Facility Project. The Financing Authority is a Joint Powers Authority authorized pursuant to a Joint Exercise of Powers Agreement between the City and the Agency to borrow money for the purpose of financing the acquisition and construction of assets of the City and the Agency, of which the Series 2001A bonds were issued by the Financing Authority. The Agency entered into the Agency Pledge Agreement with the Financing Authority, whereby the Agency payments are payable from and secured by surplus Agency Revenues and, therefore, this debt reflects only the Fourth Street

Garage obligation. The Agency Pledge Agreement was assumed by SARA. The obligated payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the garage. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution or indenture pursuant to which the outstanding tax allocation bonds were issued, plus (ii) all legally available revenues of the Agency.

Due to an insufficiency of tax revenues to the SARA, there were no Surplus Agency Revenues available in fiscal year 2014-15 and therefore the City's Parking System Fund advanced $1,681,713 to the SARA to enable SARA to make its payments under the Agency Pledge Agreement to the Financing Authority (see Note 8). As of June 30, 2015, the Series 2001A bonds have an outstanding balance of $27,985,000.

Convention Center Refunding Reimbursement Agreement

In July 2001, the Financing Authority issued the Convention Center Lease Revenue Refunding Bonds, Series 2001F (tax-exempt) and Series 2001G (taxable) amounting to $186,150,000 and $4,580,000, respectively. The bonds were issued to refund the 1993 Revenue Bonds, Series C. The Series 2001G Bonds have been paid off and only the Series 2001F Bonds remain outstanding.

In connection with the issuance of the 2001 Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement under which the Agency is obligated to use redevelopment property tax revenues or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Second Amended and Restated Reimbursement Agreement was assumed by SARA.

Due to an insufficiency of tax revenues to the SARA, the City advanced $12,627,600 in fiscal year 2014-15 to the SARA to assist in the payment of debt service on the 2001F bonds to the Financing Authority. On June 30, 2015, the SARA repaid the City from the proceeds of the sales of property per the Amended and Restated Long-Term Reimbursement Agreement (see Note 8). The Series 2001F bonds mature in 2022 and have an outstanding balance of $100,260,000 at June 30, 2015.

California Statewide Communities Development Authority (CSCDA) Educational Revenue Augmentation Fund (ERAF) Loan

The Agency had been periodically required to make payments to the State of California's Educational Revenue Augmentation Fund ("ERAF") through the County of Santa Clara. To finance the 2005 and 2006 ERAF payments, the Agency participated in the California Redevelopment Association/Educational Revenue Augmentation Fund ("CRA/ERAF") Loan Program. The loan was assumed by the SARA. As of June 30, 2015, the 2006 loan has a principal balance of $1,905,000, bears a fixed interest rate of 5.67% on remaining interest payments, and matures on August 1, 2016. The 2005 loan was paid in full on March 1, 2015.

HUD Section 108 Loans

In 1997, the Agency received loan proceeds of $5,200,000 under the provisions of the U.S. Department of Housing and Urban Development ("HUD") Section 108. The proceeds were used to finance the

following downtown projects: Security Building, Bassler & Haynes and Beach Buildings ("Eu Bldgs"), and the Masson Building.

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

As of June 30, 2015, the outstanding loans due to HUD totaled to $24,232,000. The notes payable to HUD mature annually through August 2027 and bear interest at 20 basis points above the monthly LIBOR index. The average rate for June 2015 was 0.48%. The HUD loans are secured by several City (Convention Center – South Hall and Fairmont Hotel Parking Garage) and SARA owned capital assets (José Theatre and Arena Lot 5A) with an aggregate fair market value of $37,850,000 at June 30, 2015, and CDBG grants that were awarded or will be awarded to the City. The loans are being repaid by the City through CDBG funds due to insufficiency of tax increment revenues. During the year ended June 30, 2015, the SARA received $1,653,136 from the City's CDBG fund.

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan

On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in county Supplemental Educational Revenue Augmentation Funds ("SERAF") to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's SERAF obligation was $62.2 million in fiscal year 2009-2010 and $12.8 million in fiscal year 2010-2011. Payments were made by May 10 of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) with a combined amount of $74,815,668 to make the SERAF payment. Sources of the loan were from the City's Low and Moderate Income Housing Fund ($64,815,668) which was specifically authorized by the legislation, and idle moneys from City special funds ($10,000,000).

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA. As such, the $10,000,000 portion of the SERAF loan and its related accumulated interest in the amount $160,143 from the City made by funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA's extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of $2,940,000 was also invalidated in 2012.

The DOF has determined that a significant portion of the SERAF loan made from the Low and Moderate Income Housing Fund (LMIHF) administered by the City in the amount of $52 million should not be reported in the ROPS as an enforceable obligation. The City contends the item is a housing asset because this portion of the SERAF loan was made with $52 million in cash from the LMIHF. While the DOF does not dispute that the SERAF payment was made with cash from the LMIHF, the DOF states that this portion of the SERAF loan for $52 million was funded from two sources: (1) the

February 23, 2010 Loan Agreement between the City and the former Agency and (2) from funds borrowed from the 2010 Housing TABs ($12 million and $40 million, respectively, plus all fees and interest incurred). The DOF states that the LMIHF acted as a conduit between the City and the former Agency under the loan agreement. However, the City's position is that cash available in the LMIHF was used to fund the SERAF loan and should be an enforceable obligation of the SARA and that the resources received by the LMIHF from the 2010 Loan Agreement and 2010 Housing TABs were used for continuing housing programs.

Management continues to believe, in consultation with legal counsel, that the entire portion of the SERAF loan borrowed from the Low and Moderate Income Housing funds and the interest accrued in the amount of $65,879,930 are valid enforceable obligations payable by SARA under the requirements of the Redevelopment Dissolution Law. As such, the SARA has not removed this obligation from its financial statements as of June 30, 2015 and has included this obligation as a note in the ROPS.

Commercial Paper Obligation

During fiscal year 2010, the City, as agent for the Agency, borrowed $12 million from the issuance of commercial paper notes from the Financing Authority's commercial paper program and deposited the funds into the Low and Moderate Income Housing Fund for the purpose of constructing affordable housing. The Oversight Board approved the inclusion of this obligation along with accrued interest and fees as an enforceable obligation. The repayment of the commercial paper proceeds is reported in the ROPS in the amount of $14,227,000 as of June 30, 2015. This obligation is memorialized in the SERAF loan agreement.

Tax Sharing Agreement with the County of Santa Clara

Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (the "County Pass-Through Payment"). On December 16, 1993, the Agency, the County and the City entered into a Settlement Agreement, which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (the "Amended Agreement"). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires SARA to transfer funds to the County to pay for such projects (the "Delegated Payment"). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency's Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

The Amended Agreement provides that the payments due to the County from the Agency are subordinate to all of the SARA's debt. The County and SARA are involved in litigation in Sacramento County Superior Court related to the Amended Agreement (see Note 10).

At July 1, 2014, the amount due to the County was $51,544,644. During the year ended June 30, 2015, the County withheld $31,226,039 in RPTTF for payments of its prior year's pass-through payments. In addition, during the fiscal year 2014-2015, the SARA accrued pass-through amounts of $22,628,385 and accumulated interest of $1,149,983. The total amount due to the County under the pass-through agreement at June 30, 2015 is $44,096,973. However, the SARA is disputing these amounts with the County.

2011 Settlement Agreement

On March 16, 2011 the County, the Agency and the City, along with the Diridon Authority, entered into a Settlement Agreement (the "Settlement Agreement"). The Settlement Agreement related to a lawsuit filed by the County in which the County alleged, among other things, that the Agency had failed to make timely payment of the County Pass-Through Payment for fiscal years 2008-09, 2009-10 and 2010-11 in an aggregate amount, as of June 30, 2011, of $58.27 million.

Pursuant to the Settlement Agreement, the Agency agreed, among other things, to pay the County $21.5 million of tax-exempt bond proceeds by March 30, 2011, pay an additional $5 million of unrestricted funds and transferred title to certain property to the County, resulting in a remaining amount of $23.56 million owed to the County, which the Agency agreed to make in five installments no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

The SARA did not have sufficient redevelopment property tax revenues to make the annual installment payments of $4,712,400 in the fiscal years 2014 and 2015, and has accumulated an interest accrual of $6,123,280. However, the SARA is disputing these amounts with the County.

Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest, except 1996 Merged Area Revenue Bonds Series A/B, 2003 Merged Area Revenue Bonds Series A/B, 2010 Housing Set-Aside Bonds Series C, HUD Section 108 Loans and the SERAF Loan, which bear interest at variable rates. For purposes of calculating the annual debt service requirements for variable rate debt at June 30, 2015, the following assumed effective rates have been used:

Debt	Effective Interest Rate
1996 Merged Area Revenue, Series A	0.10%
1996 Merged Area Revenue, Series B	0.12%
2003 Merged Area Revenue, Series A	0.33%
2003 Merged Area Revenue, Series B	0.10%
2010 Housing Set-Aside, Series C	3.36%
HUD Section 108 loan	0.48%
SERAF Loan – (LAIF)	0.28%

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The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2015, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending	Merged Tax Allocation		Housing Tax Allocation Bonds (1)		Merged Area Revenue Bonds (2)		Pledge and Other Agreements	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 59,880	$ 71,516	$ 11,330	$ 13,872	$ 4,025	$ 255	$ 12,510	$ 6,087
2017	62,920	68,471	11,890	13,352	4,315	494	13,125	5,454
2018	65,905	65,374	12,510	12,803	4,595	841	13,765	4,783
2019	68,205	62,138	13,165	12,223	4,675	1,088	14,450	4,077
2020	71,330	58,668	13,840	11,615	4,765	1,250	25,975	5,707
2021-2025	396,385	234,789	77,395	47,574	28,280	5,074	48,420	3,546
2026-2030	423,870	130,733	84,895	27,783	20,155	1,990	-	-
2031-2035	301,060	44,275	63,280	9,468	11,100	267	-	-
2036-2040	49,470	1,338	9,725	216	-	-	-	-
Total	$ 1,499,025	$ 737,302	$ 228,030	$ 148,906	$ 81,910	$ 11,259	$ 128,245	$ 29,654

Year Ending	Obligations with 3rd Parties		Obligations with the City		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 18,097	$ 6,255	$ 69,566	$ 1,564	$ 175,408	$ 99,549
2017	6,888	89	4,750	300	103,888	88,160
2018	6,512	81	4,727	200	108,014	84,082
2019	1,890	73	-	-	102,385	79,599
2020	1,990	72	-	-	117,900	77,312
2021-2025	11,615	197	-	-	562,095	291,180
2026-2030	2,707	5	-	-	531,627	160,511
2031-2035	-	-	-	-	375,440	54,010
2036-2040	-	-	15,401	45	74,596	1,599
Total	$ 49,699	$ 6,772	$ 94,444	$ 2,109	$ 2,151,353	$ 936,002

(1) Assumes the housing tax allocation bonds would not be payable on demand upon expiration of the 2010C Bonds on April 29, 2016. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

(2) Assumes the merged area revenue bonds would not be payable on demand upon expiration of the LOC on March 31, 2017. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

Ambac Assurance Surety Bonds Held in Bond Reserve Funds

Ambac Assurance, a subsidiary of Ambac Financial, has issued reserve fund surety bonds, securing the SARA's Senior Tax Allocation Bonds Series 1999, Series 2005B, and Series 2006D. According to the Master Trust Agreement for these bonds, in the event that such surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve (as defined in the Master Trust Agreement), the SARA is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

On May 1, 2013, Ambac Financial emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. On June 11, 2014, the Circuit Court for Dane County, approved the Plan of Rehabilitation of the Segregated Account as a remedy to rehabilitation proceedings undertaken by the Wisconsin Office of the Commissioner of Insurance. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.

NOTE 8 –TRANSACTIONS WITH THE CITY OF SAN JOSÉ

Administrative Advances from the City

During the year ended June 30, 2015, the SARA incurred $931,690 of direct administrative costs and $1,272,541 of indirect general and administrative costs for support services of designated City employees allocated to the SARA administrative activities and $100,000 for rent of City office space. As of June 30, 2015, the SARA has recorded a payable due to the City for direct administrative services and indirect City supporting services in the amounts of $3,936,902 and $4,299,853, respectively. Since administrative costs are subordinated to all SARA enforceable obligations, these costs will likely not get paid to the City until all other enforceable obligations are paid off.

Due from the City

The State Controller's final Asset Transfer Review requires the City to pay the SARA the gross revenue earned from parking and rent from the properties the City already transferred back to the SARA in fiscal year 2012-13. As of June 30, 2015, the SARA has recorded a receivable due from the City in the amount of $20,000 related to these revenues collected by the City.

Advances to the City

The Agency advanced a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has recorded a long-term receivable in the amount of $464,103 at June 30, 2015.

Long-Term Reimbursement Agreement

When redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City has committed other sources of funding to cover costs related to the following obligations: agreements associated with the City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center) and City of San José Financing Authority Revenue Bonds, Series 2001A (4th and San Fernando Streets Parking Facility Project); Education Revenue Augmentation Fund ("ERAF") payments; and the SARA annual administrative budget and City support service expenses. In order to establish an obligation for the SARA to repay the City for these advances, on September 26, 2013, the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement, as subsequently amended on August 27, 2015. Effective July 1, 2013, interest on the Initial Accrued Advance Amounts shall be calculated at the rate of the earned income yield on the average quarterly Local Agency Investment Fund for the fiscal year and compounded annually. The Accrued Advance Amounts shall be repaid after payment of pre-existing obligations of the former Agency, including any outstanding county pass-through obligations.

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The following summarizes the changes in the City's advances to the SARA for the year ended June 30, 2015:

Description	July 1, 2014	Additions	Deductions	June 30, 2015
City of San José Financing Authority Agreement:				
Lease Revenue Bonds, Series 2001F (Convention Center)	$ 9,822,290	$ 12,627,600	$ (22,449,890)	$ -
Revenue Bonds Series 2001A (4th and San Fernando Street Parking Facility Project)	6,077,816	1,681,713	(3,211,583)	4,547,946
Total City of San José Financing Authority Agreement	15,900,106	14,309,313	(25,661,473)	4,547,946
ERAF Loan	1,615,000	-	-	1,615,000
Other administrative advances:				
Direct SARA administrative services	3,005,212	931,690	-	3,936,902
Indirect City support services	2,927,312	1,372,541	-	4,299,853
Various agreements	677,953	168,744	-	846,697
Support services from the prior year	199,994	-	-	199,994
Total other administrative advances	6,810,471	2,472,975	-	9,283,446
Total administrative advances	$ 24,325,577	$ 16,782,288	$ (25,661,473)	$ 15,446,392

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Risk Management

The SARA is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities, workers' compensation, and unemployment claims for which the SARA carries a worker's compensation insurance policy, a property and casualty insurance policy, or is self-insured. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated using actuarial methods or other estimating techniques. The technique to estimate claims is based on many complex factors, such as inflation, changes in legal doctrines, past settlements, and damages awarded. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimated claims liability will include amounts of incremental claims adjustment expense related to specific claims. However, SARA does not have any claims liabilities outstanding at June 30, 2015.

Environmental Land Remediation Obligation

A review of the SARA's property during the year ended June 30, 2015 reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses), except the Miraido property as discussed below. In the very unlikely possibility, given dissolution, a land remediation obligation occurs on a property due to a change in the purpose (i.e., convert to housing or retail project), the SARA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

Adobe Property - In a prior year, the Agency entered into a Disposition and Development Agreement ("DDA") with Adobe Systems, Inc. for development of office towers and underground parking garage on land owned by the Agency in the downtown area. After the parking garage was in operation, it was found that water has been accumulating in the parking ground area. To prevent ground water intrusion, accumulation and contamination in the area, a permanent dewatering and ground water treatment and discharge system (Groundwater Treatment System) was installed that cleanses the water from volatile organic compounds prior to discharging to the Guadalupe River. Although the Agency sold the land to Adobe during the year ended June 30, 2011, the SARA was liable to operate and maintain the treatment system and remedy the property from contamination. On May 1, 2013, the SARA transferred the National Pollutant Discharge Elimination System (NPDES) Permit to Adobe, including its responsibility, coverage and liability for the treatment system. In July 2014, the SARA made a final payment of $69,000 to California Regional Water Quality Control Board for violation of untreated water entering the Guadalupe River. No further cost liability exists, allowing the SARA to write-off the remaining outstanding contingent liability of $268,000 in fiscal year 2014-15. The NPDES permit was transferred to Adobe in 2013 and the last payment to the California Regional Water Quality Control Board was transmitted July 2014, SARA has no current or future legal or financial obligation related to this property.

Miraido Property - On December 2, 2010, the Agency received a Notice of Responsibility from the County for soil remediation at the Miraido Village Site located at 560 North 6th Street in San José. The SARA owns the underlying land and leases the site to the Japantown Development Limited Partnership ("Miraido"). The Agency was added as an additional responsible party. The cleanup process is currently underway with Miraido's consultant working with the Santa Clara County Department of Environmental Health on finalizing the details of the cleanup process. As of June 30, 2015, the consultant at the direction of the developer Miraido is continuing to mitigate the environmental contamination of the site. It is anticipated that it will take approximately one to two years to complete and, upon completion, Miraido expects to receive a No Further Action letter.

Miraido is responsible for all cleanup activities under its Ground Lease. Miraido's consultant has estimated that the cost to achieve case closure is approximately $450,000, with which the SARA's consultant concurs. Under the Ground Lease, Miraido is required to indemnify the SARA if Miraido fails to complete the cleanup process and the SARA incurs any cleanup costs as a result of such failure. As of June 30, 2015, the SARA has not incurred any cleanup costs and Miraido has been conducting the cleanup as required under the Ground Lease. If Miraido fails to indemnify SARA for any current or future cleanup costs that would constitute a default under the Ground Lease, which would allow SARA to terminate the Ground Lease and take over the operations of the apartment complex and cover future costs from revenue from the property. This would provide protection for SARA having to cover those costs and then have to recover the costs from Miraido.

Contractual Commitments

At June 30, 2015, the SARA had encumbered $5,378,328 for contracted obligations. In addition, as part of the SARA's accounts payable balance, the SARA has contractual obligations in the amount of $4,331,431 at June 30, 2015, which are in arrears due to an insufficient amount of redevelopment property tax revenues remitted from the County.

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Defined Contribution Retirement Plan

In January 1995, the Agency Board adopted a defined contribution retirement plan, the Redevelopment Agency of the City of San José Retirement Plan (the "Plan"), which provides retirement benefits for its employees. For eligible employees who contribute 3.5% of their annual base salary, the SARA contributes approximately 9.0%. SARA contributions are based on a formula taking into account employee annual base salary and length of service. The SARA's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. The SARA contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the SARA's contribution requirement or to offset the plan's operating expenses. Three SARA employees are co-trustees of the Plan. The SARA contracts with an advisor to manage the Plan with all assets being held in trust by a third party custodian in the name of each of the Plan's participants. Each of the Plan's participants directs the investments of their separate account. The SARA Governing Board must authorize changes to the Plan. Any changes to the Plan that increases or accelerates SARA's obligations under the Plan must also be approved by the Oversight Board.

The total payroll for the year ended June 30, 2015 for the SARA's direct employees was $588,903. Both the SARA and the participating employees made contributions to the Plan amounting to $59,059 and $23,098, respectively.

Leases

A schedule by years of future minimum rental payments required under the SARA's non-cancelable operating leases for office facilities, business equipment, and land at June 30, 2015, is as follows (in thousands):

Year Ending June 30	Minimum Payments
2016	$ 856
2017	843
2018	863
2019	764
2020	614
2021-2023	578
Total	$ 4,518

The total rent expense for operating leases during the year ended June 30, 2015 was $1,119,247.

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Notes to Basic Financial Statements
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NOTE 10 – LITIGATION

Litigation Against County Auditor-Controller

The City on its own behalf and as the SARA has filed a lawsuit entitled *City of San Jose as Successor Agency to the San Jose Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.* in the Sacramento County Superior Court. The suit seeks to recover special levies, which includes a contribution to the County's employees' retirement program (the "PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District (the "Water District Levy"), being withheld by the County from property taxes that were previously considered to be "tax increment" paid directly to the Agency. The lawsuit also seeks to determine the priority of the County's pass-through payments under the Amended Agreement. The Sacramento Superior Court agreed with SARA that the portion of the PERS levy attributable to the former Redevelopment Agency tax increment should not be withheld from SARA; however, the Court agreed with the County that the pass-through payments are not subordinate to other Agency debt pursuant to the Redevelopment Dissolution Law. The Court did not rule on the Water District Levy. Both the City and County have appealed the Sacramento Superior Court decision. A decision is expected in the 2016 calendar year. The County has continued to withhold the revenues associated with the special levies pending resolution of the appeal. At June 30, 2015, the County has withheld approximately $29,357,195 in special levies from the SARA.

NOTE 11 – SUBSEQUENT EVENTS

On October 10, 2013, the SARA Oversight Board approved the return of government purpose assets with the book value of $8,887,104 at June 30, 2014 to the City. This action has been reviewed and approved by the DOF. The SARA transferred seven properties in the amount of $2,441,592 in July 2015, and the remaining properties in the amount of $6,445,512 will be transferred in fiscal year 2015-2016.

On September 22, 2015, Senate Bill 107, which amends various sections of the California Health and Safety Code related to the dissolution of redevelopment agencies, was signed into law by Governor Jerry Brown. SB 107 contains various provisions which may impact, among other things, (i) the repayment of prior loans made by the City to the Agency; (ii) the treatment of City loans to the SARA to pay enforceable obligations, including bonded debt, and administrative costs; and (iii) the treatment of certain voter-approved special taxes, including a contribution to the County's employee' retirement program ("PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District ("Water District Levy").

Based on an initial review of SB 107, SB 107 will specifically impact SARA and the City as follows: (i) monies owed by the Agency to the City's Park Trust Fund in the amount of approximately $8,111,800 will no longer be eligible to be reinstated as a loan; (ii) the interest rate on loans that may be reinstated will be reduced to three percent (3%) simple interest; (iii) the City will no longer be able to be repaid on an intra-year basis for loans made by the City to the SARA to pay enforceable obligations, including bonded debt, and administrative costs; (iv) the repayment of any new City loans will be subordinate to other approved enforceable obligations and repaid only after other approved enforceable obligations have been repaid; and (v) from and after September 22, 2015, the effective date of SB 107, if the portion of former tax increment attributable to voter-approved special taxes, including the PERS Levy and Water District Levy, is not necessary to pay the SARA's bonded debt, the withheld funds will not be available to the SARA to pay other enforceable obligations.

Since June 2012, the County has withheld funds, formerly distributed as tax increment, from its distributions to the SARA, in amounts equivalent to the PERS Levy and the Water District Levy. The County's withholding of these funds is one of the issues being litigated in the lawsuit described in Note 10. The County may attempt to use SB 107 as a defense in the lawsuit and the City cannot predict the outcome of that litigation.

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Sacramento
Walnut Creek
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Century City
Newport Beach
San Diego

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Successor Agency of the Redevelopment Agency of the City of San José (SARA), a component unit of the City of San José (City), California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the SARA'S basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SARA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SARA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SARA's internal control.

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

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

Compliance and Other Matters

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

Macias Gini & O'Connell LLP
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596

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

Purpose of this Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 13, 2015

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ
Status of Prior Year's Finding
June 30, 2015

STATUS OF PRIOR YEAR'S FINDING

Reference Number:	**Comment #2014-01 – Control Deficiency** Loan Program Monitoring
Audit Condition:	The dissolution of the Redevelopment Agency of the City of San José impacted the organization's internal controls over loan program monitoring. The current staffing complement lacks an adequate system to monitor the borrowers' compliance with significant loan provisions and changes in financial condition. The loan receivables reported in the SARA's financial statements should be reported at net realizable value and are periodically analyzed and adjusted by an allowance for uncollectible loans under generally accepted accounting principles.
Recommendation:	We recommend that the SARA work with the City in transitioning monitoring procedures to better track terms and conditions on its loan portfolio. The City should also document and evaluate its current collectability estimates.
Status of Comment:	The comment has been corrected in fiscal year 2014/2015.

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