

**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



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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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.

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.



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
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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)
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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
		209,395,115
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
		215,454,296
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)**

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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).

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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.

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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.

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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.

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Notes to Basic Financial Statements
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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.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2015

- 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

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Notes to Basic Financial Statements
For the Year Ended June 30, 2015

- 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.

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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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Notes to Basic Financial Statements
For the Year Ended June 30, 2015

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)			Fair Value
		Under 30	31-180	181-365	
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		<u>\$ 41,177,910</u>	<u>\$ 63,688,159</u>	<u>\$ 43,399,636</u>	<u>148,265,705</u>
Certificates of Deposit					4,023,171
Bank Deposits					10,600,232
Petty Cash					311
Total cash and investments					<u>\$ 162,889,419</u>

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the SARA. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. 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:

<u>Project/Program</u>	<u>Amount</u>
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	<u>\$ 4,344,623</u>

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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:

<u>Property Description</u>	<u>July 1, 2014</u>	<u>Addition</u>	<u>Disposal</u>	<u>June 30, 2015</u>
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	<u>\$ 22,473,641</u>	<u>\$ 1,633,635</u>	<u>\$ (3,500,940)</u>	<u>\$ 20,606,336</u>

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:

	<u>July 1, 2014</u>	<u>Addition</u>	<u>Disposal/ Transfer</u>	<u>Reclassification</u>	<u>June 30, 2015</u>
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	<u>87,839,523</u>	<u>-</u>	<u>(4,281,701)</u>	<u>45,000</u>	<u>83,602,823</u>
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	<u>173,977,586</u>	<u>-</u>	<u>(106,801,535)</u>	<u>16,876,063</u>	<u>84,052,114</u>
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	<u>25,700,618</u>	<u>5,679,606</u>	<u>(27,913,376)</u>	<u>16,876,063</u>	<u>20,342,911</u>
Total capital assets, being depreciated, net	<u>148,276,968</u>	<u>(5,679,606)</u>	<u>(78,888,159)</u>	<u>-</u>	<u>63,709,203</u>
Total capital assets, net	<u>\$ 236,116,491</u>	<u>\$(5,679,606)</u>	<u>\$(83,169,860)</u>	<u>\$ 45,000</u>	<u>\$147,312,026</u>

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.

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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%	\$0 - 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							<u>1,716,205</u>
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							<u>162,760</u>
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 2006 ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2006	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							<u>279,620</u>
Total Long-Term Debt							<u>\$ 2,158,585</u>

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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
2003 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	<u>1,781,235</u>	<u>-</u>	<u>(65,030)</u>	<u>1,716,205</u>	<u>68,305</u>
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	<u>169,245</u>	<u>-</u>	<u>(6,485)</u>	<u>162,760</u>	<u>84,875</u>
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/ERAF Loan 2005	2,355	-	(2,355)	-	-
CSCDA CRA/ERAF 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 - SERAF Loans (Principal)	64,816	-	-	64,816	64,816
City of San José - SERAF 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	<u>300,268</u>	<u>23,050</u>	<u>(43,697)</u>	<u>279,620</u>	<u>107,360</u>
Subtotal Long-Term Debt before Unamortized Issuance Premium (discount), Net	<u>2,250,748</u>	<u>23,050</u>	<u>(115,212)</u>	<u>2,158,585</u>	<u>260,540</u>
Issuance Premium (discount), Net	30,048	-	(3,927)	26,121	3,333
Total Long-Term Debt Payable	<u>2,280,796</u>	<u>23,050</u>	<u>(119,140)</u>	<u>2,184,706</u>	<u>263,873</u>
Environmental Remediation Obligation	337	-	(337)	-	-
Total Long-Term Obligations	<u>\$ 2,281,133</u>	<u>\$ 23,050</u>	<u>\$ (119,477)</u>	<u>\$ 2,184,706</u>	<u>\$ 263,873</u>

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.

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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	Credit Facility Description	
	June 30, 2015	Provider	Expiration Date
	(in thousands)		
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
	<u>81,910</u>		
Total variable rate revenue bonds	<u>\$ 81,910</u>		

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%.

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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

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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

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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

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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).

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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:

<u>Debt</u>	<u>Effective Interest Rate</u>
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 June 30	Merged Tax Allocation		Housing Tax Allocation Bonds ⁽¹⁾		Merged Area Revenue Bonds ⁽²⁾		Pledge and Other Agreements	
	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	\$ 298,030	\$ 148,906	\$ 81,910	\$ 11,259	\$ 128,245	\$ 29,654

Year Ending June 30	Obligations with 3rd Parties		Obligations with the City		Total	
	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.

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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*.

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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.

**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

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.

**SUCCESSOR AGENCY TO THE
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(A Component Unit of the City of San José, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

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.

**SUCCESSOR AGENCY TO THE
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(A Component Unit of the City of San José, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

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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**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.

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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