

**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, 2016

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

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### **Report on the financial statements**

We have audited the accompanying financial statements of the Successor Agency to the Redevelopment Agency of the City of San Jose (“SARA”), a component of the City of San José, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the SARA’s basic financial statements as listed in the table of contents.

### **Management’s responsibility for the financial statements**

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

### **Auditor’s responsibility**

Our responsibility is to express opinions 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 SARA’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 SARA’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 respective financial position of the SARA as of June 30, 2016, and the respective changes in financial position and thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other matters

##### *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 the financial reporting for placing the basic financial statements in an appropriate 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 16, 2016, on our consideration of the SARA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SARA's internal control over financial reporting and compliance.

*Grant Thornton LLP*

San José, California  
November 16, 2016

**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  
For the Year Ended June 30, 2016

<b>Assets:</b>	
Cash and cash investments	\$ 19,625,248
Receivables:	
Due from the City of San José	19,912
Other, net of \$35,291	3,039,286
Restricted cash and investments	158,725,156
Advances to the City of San José	458,526
Loans receivable, net	4,953,796
Accrued interest, net	860,564
Deposits	6,202
Property held for resale	29,473,443
Capital assets:	
Nondepreciable	73,556,001
Depreciable, net	61,632,157
	<hr/>
Total assets	352,350,291
	<hr/>
<b>Deferred outflows of resources:</b>	
Loss on deferred amount on refunding	26,712,042
	<hr/>
<b>Liabilities:</b>	
Due to the City of San José	130,399
Accounts payable	8,121,059
Accrued salaries and benefits	181,989
Accrued interest payable	35,089,364
Pass-through payable to the County of Santa Clara	47,005,849
Unearned revenues	161,893
Deposits	8,900
Noncurrent liabilities:	
Due within one year	205,901,302
Due in more than one year	1,843,701,376
	<hr/>
Total liabilities	2,140,302,131
	<hr/>
<b>Net position (deficit) held in trust</b>	<b>\$ (1,761,239,798)</b>
	<hr/> <hr/>

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

Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2016

**Additions:**

Redevelopment property tax revenues	\$	217,012,590
Investment income		808,560
Rent		302,956
Charges for current services		761,126
Development fees		425,113
Gain on sales of property, net		2,688,637
Grant revenue		11,184,339
Other		2,136,154
		235,319,475
Total additions		235,319,475

**Deductions:**

General and administrative:		
Salaries, wages and benefits		634,096
Materials, supplies and other services		1,685,800
Project expenses		2,062,446
Pass-through amount to the County of Santa Clara		29,855,559
Capital contributions to the City of San José		9,166,136
Depreciation		2,077,046
Interest on debt		90,461,723
Allowance for loan losses		17,821,238
		153,764,044
Total deductions		153,764,044
Special item from SERAF loan reduction		42,905,351
Change in net position		124,460,782
Net position (deficit), beginning of year		(1,885,700,580)
<b>Net position (deficit), end of year</b>	<b>\$</b>	<b>(1,761,239,798)</b>

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE**  
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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

The SARA is a separate public entity from the City, subject to the direction and oversight of a Board consisting of the Mayor and the other members of the City Council. The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an Oversight Board. The Oversight Board is comprised of seven member representatives from local government bodies: two appointed by the Mayor; two appointed by the County of Santa Clara (“County”); one appointed by the County Superintendent of Education; one appointed by the Chancellor of California Community Colleges; and one appointed by the largest special district taxing entity in the Merged Project Area (currently the Santa Clara Valley Water District).

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

**SUCCESSOR AGENCY TO THE  
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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

**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. 72, *Fair Value Measurement and Application*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income, including unrealized gains and losses, is recognized as revenue.

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

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

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

***Redevelopment Property Tax Trust Fund Revenues***

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

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

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

The County Auditor-Controller administers the RPTTF for the benefit of local taxing agencies and the holders of the SARA’s enforceable obligations. The Redevelopment Dissolution Law requires the Auditor-Controller to disburse funds from the RPTTF in the following order: (1) for payments local agencies and schools would have received from the collected revenue before dissolution and for any pass-through payments pursuant to agreement; (2) for payment of the former redevelopment agency’s enforceable obligations, (3) for payment of the SARA’s administrative expenses, and (4) to local taxing agencies.

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

The hierarchy of payment for enforceable obligations on the SARA’s ROPS is as follows: debt service on tax allocation bonds is paid first; debt service on revenue bonds is paid second; all other obligations are paid third; and the SARA’s administrative costs are paid last. The maximum administrative cost allowance is the greater of \$250,000 or three percent of the revenue allocated to the SARA.

***Restricted Assets***

Assets are restricted for specified uses by bonded debt requirements, grant provisions or other requirements and their use is limited by applicable bond covenants or agreements.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

***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 SARA properties. The SARA properties designated for sale under the LRPMP are to be sold in accordance with the Asset Disposition Schedule and the Disposition Process For Sale of Properties, both of which are subject to the approval of the Oversight Board.

***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.

***New Accounting Standard Implemented***

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purpose. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. As of June 30, 2016, the SARA adopted GASB Statement No. 72, which did not have a significant impact on its financial statements. The SARA has disclosed fair value measurements for assets held in the fiscal agents in Note 3 below.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

**NOTE 3 – CASH AND INVESTMENTS**

The SARA's cash and investments consist of the following at June 30, 2016:

<b>Cash &amp; Investments</b>	<b>Amount</b>
Cash and Investments	\$ 19,625,248
Restricted Cash and Investments	158,725,156
Total Cash and Investments	\$ 178,350,404

***Investments***

The SARA follows provisions of the California Government Code and the City's Municipal Code as set forth in the City's Investment Policy. The City Council adopted an investment policy (the "Policy") on April 2, 1985, as last amended on June 7, 2016, related to the City's cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an 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.

The following table identifies the investment types that are authorized by the Policy as of June 30, 2016:

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage or Dollar of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Supranationals	5 years	20% *	None
Bankers' Acceptances	180 days	20% *	5% *
Insured Time Deposits	3 years *	\$10 million *	5% *
Uninsured Time Deposits	18 months *	\$10 million *	5% *
Commercial Paper	270 days	20% *	5% *
Negotiable Certificates of Deposit	1 year *	20% *	5% *
Repurchase Agreements	92 days *	50% *	10% *
Reverse Repurchase Agreements	30 days *	Lesser of \$25 million or 20% *	None
Corporate Medium Term Notes	3 years *	30%	5% *
California Local Agency Investment Fund	N/A	State Treasurer Limit	None
Money Market Mutual Funds	N/A	20%	10%
Municipal Bonds - Category 1 (City)	5 years	10% *	5% *
Municipal Bonds - Category 2 (State of CA)	5 years	5% *	5% *
Municipal Bonds - Category 3 (CA Issuers)	5 years	20% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	20% *	5% *
Investment Agreements	None	None	None
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)	5 years	10% *	None
Asset Backed Securities (ABS)	5 years	5% *	None

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

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Agriculture Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Investment in Farmer Mac may not exceed 10% of the total portfolio.
- Purchases of Supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated “Aa3, AA or AA” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.
- Purchases of Bankers’ Acceptances (“BAs”) are limited to issues by domestic U.S. or foreign banks. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.
- 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 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, 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.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

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

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a provider's inability to meet its contractual obligations.
- Mortgage backed securities and collateralized mortgage obligations must be issued by a United States government agency and must be AAA rated or better by a nationally recognized rating service.
- 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 acting as CFO for the SARA 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, 2016, the SARA invested an amount of \$39,950,998 with LAIF, which is comprised of \$14,563,766 restricted for future debt service payments, \$12,706,142 from the 2003 Tax Allocation Bonds reserve account, \$2,557,564 from the 2008 Tax Allocation Bonds reserve accounts, \$26,247 from 2008A Tax Allocation Bonds project reserve account, and \$10,097,279 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 167 days at June 30, 2016. The LAIF balance in the bonds reserve accounts are not subject to the maximum amount of \$65,000,000 authorized by the State Treasurer.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

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, 2016 was approximately \$22.7 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, 2016 was approximately \$75.4 billion and of that amount, 58.91% was invested in US Treasuries and agencies, 30.41% in depository securities, 9.93% in commercial paper, 0.67% in loans, and 0.08% in mortgages.

***Fair Value Measurement Categorization***

The SARA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The State of California Local Agency Investment Fund and Money Market Mutual Fund are valued by net asset value. The SARA has the following recurring fair value measurements as of June 30, 2016:

	<b>Fair Value Measurements Using</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance at June 30</b>
Investments by Fair Value Level:				
Federal Home Loan Mortgage Corporation	\$ -	\$ 97,832,280	\$ -	\$ 97,832,280
Federal National Mortgage Association	-	17,212,762	-	17,212,762
Money Market Mutual Fund	9,239,010		-	9,239,010
Treasury Obligation Fund	4,549,047	-	-	4,549,047
Total Investments by Fair Value Level	\$ 13,788,057	\$ 115,045,042	\$ -	128,833,099
State of California Local Agency Investment Fund				39,950,998
Total Investments				\$ 168,784,097

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

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

***Custodial Credit Risk***

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

The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the SARA's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the SARA's name.

As of June 30, 2016, \$8,977,342 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 \$9,566,120 at June 30, 2016.

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.

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

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by the nationally recognized statistical rating organizations. The SARA's investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio and by establishing monitoring procedures.

The following schedule indicates the interest rate and credit risk of SARA's investments at June 30, 2016:

	Moody's Credit Rating	Maturity (in Days)			Balance at June 30
		Under 30	31-180	181-365	
Investments:					
State of California Local					
Agency Investment Fund	Not Rated	\$ -	\$ 39,950,998	\$ -	\$ 39,950,998
Federal Home Loan Mortgage Corporation	Aaa	97,832,280	-	-	97,832,280
Federal National Mortgage Association	Aaa	17,212,762	-	-	17,212,762
Money Market Mutual Fund	Aaa	-	9,239,010	-	9,239,010
Treasury Obligation Fund	Aaa	-	4,549,047	-	4,549,047
Subtotal Investments		<u>\$ 115,045,042</u>	<u>\$ 53,739,055</u>	<u>\$ -</u>	<u>168,784,097</u>
Certificates of Deposit					4,025,249
Bank Deposits					5,540,871
Petty Cash					187
Total Cash & Investments					<u>\$ 178,350,404</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.

As of June 30, 2016, the SARA have following investments that represents 5% or more of the total investments.

Federal Home Loan Mortgage Corporation	57.96%
State of California Local Agency Investment Fund	23.67%
Federal National Mortgage Association	10.20%
Money Market Mutual Fund	5.47%

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

*Restricted Cash and Investments:*

*Held with Fiscal Agents*

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, reserve requirements, and temporary investments of unexpended bond proceeds. At June 30, 2016, the amounts held by the trustees aggregated to \$154,327,157. All restricted investments held by trustees at June 30, 2016 were in compliance with the bond indentures.

*Held in Escrow Accounts*

Pursuant to contracts and agreements, certain funds are required to be held in escrow accounts and are restricted for a particular purpose. These funds remain the property of SARA until used. At June 30, 2016, the escrow accounts are as follows:

<b>Project/Program</b>	<b>Amount</b>
JPMorgan Liquidity Reserve	\$ 4,002,667
HUD Section 108 Loans Debt Service Account	372,750
Center for Employment Training Toxic Fund (Convention Center South Hall Site)	22,582
Total Other Restricted Deposits	\$ 4,397,999

**NOTE 4 – LOANS RECEIVABLE**

Composition of loans receivable at June 30, 2016 is as follows:

<b>Description</b>	<b>Loan Receivable</b>	<b>Accrued Interest Receivable</b>	<b>Allowance</b>	<b>Net</b>
1 Parcels of land sold to developers	\$ 1,728,360	\$ -	\$ (1,728,360)	\$ -
2 HUD Section 108 loans	1,880,373	32,933	(1,149,075)	764,231
3 Historic home relocation loans	2,076,290	-	(2,076,290)	-
4 Rehabilitation of residential units	143,589	31,513	(143,589)	31,513
5 Commercial building loans	8,282,218	796,118	(4,059,720)	5,018,616
6 Residential housing projects	11,943,506	5,542,570	(17,486,076)	-
7 Rehabilitation of historic hotel building	5,265,000	-	(5,265,000)	-
8 Small business loan program	89,248	-	(89,248)	-
Total	\$ 31,408,584	\$ 6,403,134	\$ (31,997,358)	\$ 5,814,360

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**NOTE 4 – LOANS RECEIVABLE - Continued**

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 located at 360 South Market Street in San Jose, the original developer entered into a Disposition and Development Agreement (“DDA”) with the Agency in 2005 to develop a mixed use project on the property (“360 Residences Project”). The 360 Residences Project was acquired by a new owner at a foreclosure sale on March 25, 2011 subject to the original DDA. On April 26, 2011, the DDA was amended to give the new owner the right to convert the project from for-sale to rental. The DDA was also amended to give the new owner the authority to subsequently convert any units back to for-sale units. Under the amended DDA, the new owner also executed a new promissory note payable to the Agency in the principal amount of \$1,728,360. The principal and interest under the new promissory note are due and payable when all proceeds of sold condominium units exceed an invested capital threshold. At June 30, 2016, the amount due from the new owner was \$1,728,360. A provision for doubtful accounts was recorded for the entire balance due under the promissory note because the likelihood of the payment criteria being met is questionable in the foreseeable future.
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, 2016, the amount due from the developers was \$1,913,306. An allowance for doubtful accounts in the amount of \$1,149,075 was made in prior years to account for the principal balance of a loan due to amounts in arrears. The allowance is adjusted based on the payments received during the year. The Agency receives interest payments from developers, therefore, no allowance on interest is necessary.
3. The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were sold to families and a non-profit agency. The owner made interior and exterior improvements using loans provided by the Agency. The loans are to be paid only in the event of non-compliance with the terms and conditions of the agreements. At the time residential occupancy of the house ceases or the property is transferred to anyone other than the owner by any method other than inheritance, the unamortized portion of the loan shall become due and payable in full. Unpaid principal shall bear an interest rate of 8% per annum. The total loans of \$2,076,290 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.
4. The Agency extended various bank-assisted loans to aid first-time homebuyers and to aid with the rehabilitation of homes. The loans accrue interest at various interest rates and are due when the related properties are sold. At June 30, 2016, the net amount due from such loans was \$175,102. An allowance for doubtful accounts in the amount of \$143,589 was made for potential write-offs.
5. The Agency extended and amended various loans to property owners for the rehabilitation and improvements of commercial buildings. The loans are due within 10 to 25 years. The principal amount of the loans vary and they bear different interest rates. At June 30, 2016, the total amount due from these loans was \$9,078,336. An allowance for doubtful accounts in the amount of \$4,059,720 was made for potential write-offs.

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**NOTE 4 – LOANS RECEIVABLE - Continued**

6. The Agency entered into Disposition and Development Agreements with various developers (Market Gateway and Miraido) for the construction of residential housing units in redevelopment project areas. The housing units were constructed on real property ground leased to the developers and the Agency retained fee title to the underlying real property. The financial improvement assistance provided to the developers by the Agency for such projects was to be repaid from Participation Rent due the Agency as landlord under each Ground Lease. The financial improvement assistance bears an interest rate ranging from 3.5% to 4%. Upon the sale of the underlying fee title of the real property by the Successor Agency, the Successor Agency's interest as landlord under each Ground Lease, and its right to receive Participation Rent, would transfer to the owner/buyer of the underlying fee title and the Successor Agency would no longer receive any repayment of the financial improvement assistance. At June 30, 2016, the amount due from the developers towards repayment of the financial improvement assistance was \$17,486,076. An allowance for doubtful accounts in the amount of \$17,486,076 was made for potential write-offs.
7. 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, 2016, 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.
8. 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, 2016, the outstanding loans totaled \$89,248. An allowance for doubtful accounts in the amount of \$89,248 was made for potential write-offs.

**NOTE 5 – PROPERTY HELD FOR RESALE**

A summary of changes of the property held for resale during the year ended June 30, 2016 is as follows:

<u>Property Description</u>	<u>July 1, 2015</u>	<u>Addition</u>	<u>Disposal</u>	<u>June 30, 2016</u>
N. San Pedro Housing site <sup>(1)</sup>	\$ 19,096,336	\$ 10,377,107	\$ -	\$ 29,473,443
Hoffman Via Monte <sup>(2)</sup>	660,000	-	(660,000)	-
Central Place Garage <sup>(3)</sup>	850,000	-	(850,000)	-
Total Property Held for Resale	<u>\$ 20,606,336</u>	<u>\$ 10,377,107</u>	<u>\$ (1,510,000)</u>	<u>\$ 29,473,443</u>

- (1) The valuation is based on the construction cost incurred. The asset is in construction.
- (2) Valuation is based on the appraisal report prepared by Gregory D. Rinehart & Associates on December 9, 2014.
- (3) Valuation is based on the appraisal report prepared by Carmeghi and Partners, Inc. on November 17, 2014.

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

On June 15, 2016, the SARA sold Hoffman Via Monte (Gallup Drive and Mesa Street) for \$1,160,000 and recognized a gain, after closing costs of \$2,358, in the amount of \$497,642.

On June 15, 2016, the SARA sold the Central Place Garage for \$3,575,500 and recognized a gain, after closing costs of \$10,397, in the amount of \$2,715,103.

As security for payments due to the County of Santa Clara under the County Settlement Agreement executed in March 2011 (“County Settlement Agreement”), 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.

**NOTE 6 – CAPITAL ASSETS**

A summary of changes in the SARA’s capital assets for the year ended June 30, 2016, is as follows:

	<u>July 1, 2015</u>	<u>Addition</u>	<u>Disposal/ Transfer</u>	<u>June 30, 2016</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 82,626,128	\$ 100,000	\$(10,146,821)	\$ 72,579,306
Construction in Progress	976,695	-	-	976,695
Total Capital Assets, Not Being Depreciated	<u>83,602,823</u>	<u>100,000</u>	<u>(10,146,821)</u>	<u>73,556,001</u>
Capital Assets, Being Depreciated:				
Buildings	82,799,173	-	(188,761)	82,610,412
Building and other Improvements	107,985	-	-	107,985
Equipment	1,144,956	-	-	1,144,956
Total Capital Assets, Being Depreciated	<u>84,052,114</u>	<u>-</u>	<u>(188,761)</u>	<u>83,863,353</u>
Less Accumulated Depreciation:				
Buildings	19,151,161	2,069,846	(188,761)	21,032,246
Building and other Improvements	46,794	7,200	-	53,994
Equipment	1,144,956	-	-	1,144,956
Total Accumulated Depreciation	<u>20,342,911</u>	<u>2,077,046</u>	<u>(188,761)</u>	<u>22,231,196</u>
Total Capital Assets, Being Depreciated, net	<u>63,709,203</u>	<u>(2,077,046)</u>	<u>-</u>	<u>61,632,157</u>
Total Capital Assets, net	<u>\$ 147,312,026</u>	<u>\$(1,977,046)</u>	<u>\$(10,146,821)</u>	<u>\$135,188,158</u>

Various Agency-owned real estate assets with an aggregate book value of \$17,069,531 are used to secure Letters of Credit obtained from JPMorgan Chase Bank (“JPMorgan”) supporting the Agency’s 1996 and 2003 variable rate revenue bonds.

In addition, the Convention Center – South Hall, José Theatre, and Arena Lot 5A were used as collateral to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development.

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**NOTE 6 – CAPITAL ASSETS - Continued**

On August 27, 2015, the SARA Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the Disposition Process For Sale of Properties, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. Additional revision to the Asset Disposition Schedule was approved by the SARA Oversight Board on April 28, 2016. These actions have been reviewed and approved by the DOF.

During the fiscal year, the SARA transferred fifteen government purpose properties with a total book value of \$7,889,027 to the City.

In May 2016, the SARA sold one property (Old Fire Station #1) with the net book value of \$45,000 for \$1,000,000 and recognized a gain of \$950,404 after transaction costs. The net proceeds of \$792,226 were used to redeem 2003 Merged Revenue Series A bonds and \$198,057 was used to pay the accrued interest owed to the County under the County Settlement Agreement (Note 7).

In June 2016, the SARA sold one property (Plaza Hotel) to the City with the book value of \$2,212,794 for \$740,000 and recognized a net loss of \$1,474,511 after transaction costs. The net proceeds of \$587,002 were used to redeem 2003 Merged Revenue Series A bonds and \$146,750 was used to pay the accrued interest owed to the County under the County Settlement Agreement (Note 7).

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**NOTE 7 – DEBT**

The following is a summary of long-term debt of the SARA at June 30, 2016 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2016 Balance
<b>Senior Tax Allocation Bonds:</b>							
1997 Merged	Merged area project	\$ 106,000	3/27/1997	8/1/2028	5.50 - 5.63%	\$10 - 715	\$ 4,425
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	\$0 - 7,165	12,920
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00 - 5.00%	\$25 - 34,100	125,745
2004 Merged Refunding Series A	Refunding TABs	281,985	5/27/2004	8/1/2019	4.36 - 5.25%	\$15,000 - 31,900	106,705
2005 Merged Refunding Series A	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20 - 5.00%	\$295 - 26,210	122,705
2006 Merged Series A-T	Merged area project	14,300	11/14/2006	8/1/2022	5.65%	\$0 - 6,000	13,300
2006 Merged Series B	Merged area project	67,000	11/14/2006	8/1/2035	4.50 - 5.00%	\$0 - 21,000	67,000
2006 Merged Refunding Series C	Refunding TABs	423,430	12/15/2006	8/1/2032	3.75 - 5.00%	\$0 - 74,280	423,430
2006 Merged Refunding Series D	Refunding TABs	277,755	12/15/2006	8/1/2023	4.00 - 5.00%	\$830 - 67,330	272,885
2007 Merged Series A-T	Merged area project	21,330	11/7/2007	8/1/2017	5.10%	\$2,530 - 2,670	5,200
2007 Merged Series B	Merged area project	191,600	11/7/2007	8/1/2036	4.25 - 5.00%	\$0 - 23,970	191,600
2008 Merged Series A	Merged area project	37,150	11/13/2008	8/1/2018	6.50%	\$4,130 - 4,600	13,085
2008 Merged Series B	Merged area project	80,145	11/13/2008	8/1/2035	6.25 - 7.00%	\$0 - 6,700	80,145
1997 Housing Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75 - 5.85%	\$440 - 3,670	15,540
2003 Housing Series J	Low-moderate income housing	55,265	7/10/2003	8/1/2024	4.70 - 5.25%	\$2,015 - 3,505	25,030
2003 Housing Series K	Low-moderate income housing	13,735	7/10/2003	8/1/2029	3.90 - 4.40%	\$265 - 460	4,935
2005 Housing Series A	Low-moderate income housing	10,445	6/30/2005	8/1/2024	3.75 - 5.00%	\$0 - 2,270	10,445
2005 Housing Series B	Low-moderate income housing	119,275	6/30/2005	8/1/2035	5.10 - 5.46%	\$695 - 8,300	96,595
2010 Housing Series A-1	Low-moderate income housing	54,055	4/15/2010	8/1/2035	5.00 - 5.50%	\$0 - 6,305	54,055
2010 Housing Series A-2	Low-moderate income housing	2,655	4/15/2010	8/1/2017	4.00 - 5.00%	\$495 - 1,660	2,155
<b>Total Senior Tax Allocation Bonds</b>							<u>1,647,900</u>
<b>Subordinate Tax Allocation Bonds (TAB):</b>							
1996 Merged Area Revenue Series A	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	\$1,400 - 2,000	18,300
1996 Merged Area Revenue Series B	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	\$1,400 - 2,000	18,300
2003 Merged Area Revenue Series A	Merged area projects	45,000	8/27/2003	8/1/2028	Variable	\$890 - 2,605	24,910
2003 Merged Area Revenue Series B	Merged area projects	15,000	8/27/2003	8/1/2032	Variable	\$0 - 3,900	15,000
2010 Housing Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	\$2,725 - 5,210	77,945
<b>Total Subtotal Subordinate Tax Allocation Bonds</b>							<u>154,455</u>
<b>Other Long-Term Debt:</b>							
Pledge Agreement - Revenue Bonds 2001A	4th/San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.60 - 5.25%	\$1,980 - 3,205	26,005
Reimbursement Agreement - Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	5.00%	\$11,050 - 14,730	89,730
CSCDA 2005 ERAF Loan	Fund the State's ERAF Program	19,085	4/27/2005	8/1/2015	4.77 - 5.01%	\$0	-
HUD Section 108 Loan	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	\$465	465
HUD Section 108 Loan (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	\$740 - 1,135	9,230
HUD Section 108 Loan (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	\$970 - 1,570	12,480
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2019	Variable	\$13,029	13,029
City of San José (SERAF) Loan	Fund the State's SERAF Payment	10,000	2010-2011	6/30/2019	Variable	\$10,217	10,217
City of San José - Commercial Paper Program	Fund the housing projects	14,227	2010-2012	6/30/2018	Variable	\$4,750	9,477
Other Long-Term Obligation - County Settlement Agreement	Settlement Agreement	25,290	6/30/2011	6/30/2017	Variable	\$7,703	25,290
City of San José - Reimbursement Agreement	Reimbursement Agreement	28,517	2014-2015	6/30/2016	* LAIF Rate	\$0	28,517
<b>Total Other Long-Term Debt</b>							<u>224,440</u>
<b>Total Long-Term Debt</b>							<u>\$ 2,026,795</u>

\* See Note 8 for additional disclosures.

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**NOTE 7 – DEBT- Continued**

The following summarizes the changes in long-term debt and other obligations for the year ended June 30, 2016 (in thousands):

	June 30, 2015	Additions	Reductions	June 30, 2016	Amount Due One Year
<b>Senior Tax Allocation Bonds:</b>					
1993 Merged Area Refunding	\$ 18,195	\$ -	\$ (18,195)	\$ -	\$ -
1997 Merged	4,795	-	(370)	4,425	395
1999 Merged	12,920	-	-	12,920	-
2002 Merged	11,290	-	(11,290)	-	-
2003 Merged	126,650	-	(905)	125,745	905
2004 Merged Refunding Series A	116,285	-	(9,580)	106,705	29,265
2005 Merged Refunding Series A	130,985	-	(8,280)	122,705	13,135
2005 Merged Refunding Series B	4,225	-	(4,225)	-	-
2006 Merged Series A-T	13,300	-	-	13,300	-
2006 Merged Series B	67,000	-	-	67,000	-
2006 Merged Refunding Series C	423,430	-	-	423,430	-
2006 Merged Refunding Series D	273,595	-	(710)	272,885	12,560
2007 Merged Series A-T	7,600	-	(2,400)	5,200	2,530
2007 Merged Series B	191,600	-	-	191,600	-
2008 Merged Series A	17,010	-	(3,925)	13,085	4,130
2008 Merged Series B	80,145	-	-	80,145	-
1997 Housing Series E	15,955	-	(415)	15,540	440
2003 Housing Series J	27,665	-	(2,635)	25,030	2,755
2003 Housing Series K	5,190	-	(255)	4,935	265
2005 Housing Series A	10,445	-	-	10,445	-
2005 Housing Series B	100,130	-	(3,535)	96,595	3,710
2010 Housing Series A-1	54,055	-	-	54,055	-
2010 Housing Series A-2	2,655	-	(500)	2,155	1,660
2010 Housing Series B	1,085	-	(1,085)	-	-
<b>Subtotal Senior Tax Allocation Bonds</b>	<b>1,716,205</b>	<b>-</b>	<b>(68,305)</b>	<b>1,647,900</b>	<b>71,750</b>
<b>Subordinate Tax Allocation Bonds:</b>					
1996 Merged Series A	19,600	-	(1,300)	18,300	1,400
1996 Merged Series B	19,600	-	(1,300)	18,300	1,400
2003 Merged Revenue Series A	27,710	-	(2,800)	24,910	1,515
2003 Merged Revenue Series B	15,000	-	-	15,000	-
2010 Housing Series C	80,850	-	(2,905)	77,945	77,945
<b>Subtotal Subordinate Tax Allocation Bonds</b>	<b>162,760</b>	<b>-</b>	<b>(8,305)</b>	<b>154,455</b>	<b>82,260</b>
<b>Other Long -Term Debt:</b>					
Pledge Agreement - Revenue Bonds 2001A	27,985	-	(1,980)	26,005	2,075
Reimb Agreement - Refunding Rev Bonds 2001F	100,260	-	(10,530)	89,730	11,050
CSCDA CRA/ERAF Loan 2006	1,905	-	(1,905)	-	-
HUD Section 108 Loan	900	-	(435)	465	465
HUD Section 108 Loan (CIM)	9,930	-	(700)	9,230	740
HUD Section 108 Loan (Story & King)	13,402	-	(922)	12,480	970
City of San José - SERAF Loans (Principal)	64,816	10,000	(52,000)	22,816	7,500
City of San José - SERAF Loans (Interest)	1,064	271	(905)	430	430
City of San José - Commercial paper program	14,227	-	(4,750)	9,477	4,750
Other Long-Term Obligation - County Settlement Agreement (Principal)	23,562	-	(4,712)	18,850	14,137
Other Long-Term Obligation - County Settlement Agreement (Interest)	6,123	3,308	(2,991)	6,440	6,440
City of San José - Reimbursement agreement (Principal)	15,401	13,007	-	28,408	-
City of San José - Reimbursement agreement (Interest)	45	64	-	109	-
<b>Subtotal Other Long-Term Debt</b>	<b>279,620</b>	<b>26,650</b>	<b>(81,830)</b>	<b>224,440</b>	<b>48,558</b>
<b>Subtotal Long-Term Debt before Unamortized</b>	<b>2,158,585</b>	<b>26,650</b>	<b>(158,440)</b>	<b>2,026,795</b>	<b>202,568</b>
Issuance Premium (discount), Net	26,121	-	(3,313)	22,808	3,333
<b>Total Long-Term Obligations</b>	<b>\$ 2,184,706</b>	<b>\$ 26,650</b>	<b>\$ (161,753)</b>	<b>\$ 2,049,603</b>	<b>\$ 205,901</b>

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**NOTE 7 – DEBT- Continued**

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.

Total RPTTF revenue distributed by the County in current year was \$186,013,892, which was used to pay debt service and debt related expenses on Senior and Subordinate Merged Area Tax Allocation Bonds, Senior and Subordinate Housing Set-Aside Tax Allocation Bonds, City of San José Financing Authority Series 2001A, City of San José Financing Authority Series 2001F and ERAF loans. During the year ended June 30, 2016, the County withheld \$23,640,125 in RPTTF for payments of its prior year's pass-through payments.

***Senior Merged Area Tax Allocation Bonds***

The Merged Area Tax Allocation Bonds (“Senior TABs”), which are comprised of Series 1997, Series 1999, Series 2003, Series 2004A, Series 2005A, Series 2006A-T, Series 2006B, Series 2006C, Series 2006D, Series 2007A-T, 2007B, Series 2008A, and 2008B, 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.

Redevelopment property tax revenues have been pledged until the year 2036, the final maturity date of the Senior TAB. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2016 is \$2,104,930,916.

The 80% redevelopment property tax revenue recognized and received for non-housing senior debt during the year ended June 30, 2016 in the amount of \$132,809,504 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 \$131,664,366 for the year ended June 30, 2016.

***Senior Housing Set-Aside Tax Allocation Bonds***

Housing Set-Aside Tax Allocation Bonds (comprised of Series 1997E, Series 2003J, Series 2003K, Series 2005A, Series 2005B, Series 2010 A-1, and Series 2010 A-2, 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.

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**NOTE 7 – DEBT- Continued**

Redevelopment property tax 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 as of June 30, 2016 is \$318,130,310. The 20% redevelopment property tax revenue recognized and received for the Senior Housing Set-Aside Tax Allocation Bonds during the year ended June 30, 2016 in the amount of \$19,685,162 was transferred to the fiscal agent 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 \$19,609,300 for the year ended June 30, 2016.

***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, each in the principal amount of \$29,500,000, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996A and 1996B Bonds (the “1996A/B Bonds”) are subordinate to the debt service payments of the Senior TABs.

The 1996A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on the 1996A/B Bonds amounted to \$75,512 for the year ended June 30, 2016. At June 30, 2016, the interest rate was 0.55 % for the 1996A Bonds and 0.54% for the 1996B Bonds.

**2003 Merged Area Revenue Bonds** – In August 2003, the Agency issued Merged Area Revenue Bonds Series A in the principal amount of \$45,000,000 and Series B in the principal amount of \$15,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003A and 2003B Bonds (the “2003A/B Bonds”) are ratably and equally secured by a pledge of the subordinated revenues and are subordinate to the debt service payment of the Senior TABs.

The 2003A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on 2003A/B Bonds amounted to \$187,017 for the year ended June 30, 2016. As of June 30, 2016, the interest rate was 0.73% for the taxable 2003A Bonds and 0.55% for the 2003B Bonds.

These variable-rate revenue bonds (1996A/B and 2003A/B 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 and have not otherwise been remarketed.

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**NOTE 7 – DEBT- Continued**

The credit facilities that support the variable-rate bonds are as follows:

	Balance	Credit Facility Description	
	June 30, 2016 (in thousands)	Provider	Expiration Date
Redevelopment Agency Revenue Bonds:			
1996 Merged Series A	\$ 18,300	JPMorgan Chase Bank, N. A.	3/31/2018
1996 Merged Series B	18,300	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series A	24,910	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series B	15,000	JPMorgan Chase Bank, N. A.	3/31/2018
Total Variable Rate Revenue Bonds	<u>\$ 76,510</u>		

In connection with the 1996A/B Bonds and 2003A/B Bonds, on May 6, 2013, JPMorgan and the SARA entered into an Amended and Restated Reimbursement Agreement, which provided JPMorgan letters of credit (“LOCs”) as credit enhancements for each series of bonds. The Amended and Restated Reimbursement Agreement was subsequently amended effective June 1, 2016, by a Second Amendment to the Amended and Restated Reimbursement Agreement (“JPMorgan Second Amendment,”). Pursuant to the JPMorgan Second Amendment, JPMorgan delivered amendments to the LOCs for each series of bonds that extended the LOCs’ terms from March 31, 2017 to March 31, 2018. 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, JPMorgan would be required to acquire the Bonds under the terms of the Amended and Restated Reimbursement Agreement and the applicable Indenture. After JPMorgan acquires the bonds, the full amount of the outstanding 1996A/B Bonds and 2003A/B Bonds and any other amounts due and owing under the Amended and Restated Reimbursement Agreement will become “due and payable” from the Successor Agency to JPMorgan either immediately or in one year from such date if certain conditions are met, with interest owed for such interim one year period at the Bank Rate, which is equal to the Base Rate as defined below for the first ninety (90) days and the Base Rate plus 1% thereafter. If insufficient funds exist to pay the amount due and payable, whether in one year or immediately, the interest rate on the amount owed to JPMorgan under the Amended and Restated Reimbursement Agreement increases to the Default Rate, which is equal to the Base Rate plus 3%. “Base Rate” means on any day the greatest of (a) the Prime Rate plus 1.5 %; (b) the Federal Funds Rate for such day plus 2%; and (c) 8.5%.

The SARA is required to pay JPMorgan an annual commitment fee for each credit facility based on the outstanding principal amount of the bonds supported by the credit facility. The JPMorgan Second Amendment lowered the annual commitment fee from 2.55% to 2.10%. JPMorgan also holds a liquidity reserve as an added source of security for the bank. Parcels of the former Agency owned land (“Pledged Properties”) are also used to secure the LOCs (see Note 6 – Capital Assets).

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**NOTE 7 – DEBT- Continued**

The JPMorgan Second Amendment reduced the liquidity reserve requirement to \$4,000,000 from \$5,000,000 without provision for adjustment for debt service coverage levels stated in prior agreements. The liquidity reserve balance is \$4,002,667 as of June 30, 2016.

The JPMorgan Second Amendment retains the Pledged Properties requirement and continues to require the SARA to dispose of Pledged Properties as expeditiously as possible and in a manner aimed at maximizing value pursuant to the Long Range Property Management Plan. The JPMorgan Second Amendment provides for the application of 80% of net proceeds from the sale of Pledged Properties towards the redemption of principal of the 1996A/B and 2003A/B Bonds. The JPMorgan Second Amendment also provides for payment of the remaining 20% of net proceeds from the sale of Pledged Properties to the County of Santa Clara to reduce the SARA's obligation under the County Settlement Agreement. Upon payment in full to the County of the SARA's obligations under the County Settlement Agreement, the County's lien on any remaining Pledged Projects would be released and, upon the sale of any of the remaining Pledged Properties, 100% of the net sales proceeds would be used towards the redemption of principal on the 1996 A/B and 2003 A/B Bonds.

**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, N.A. (“Wells Fargo Bank”). The 2010C Bonds were issued pursuant to a fiscal agent agreement between the Agency and Wells Fargo Bank (“Fiscal Agent Agreement”). The 2010C Bonds were used to (1) refinance the Agency’s term loan with Bank of New York 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 by the SARA and mandatory sinking fund redemption payments on August 1 of each year.

On April 1, 2016, SARA entered into a Second Amended and Restated Continuing Covenant Agreement with Wells Fargo Bank to extend the Mandatory Purchase Date to April 28, 2017 from April 29, 2016. Pursuant to the Second Amended and Restated Continuing Covenant Agreement, the interest rate is equal to the sum of basis points of 0.62% plus an applicable spread of 1.08%. At June 30, 2016, the interest rate was 1.70%.

Redevelopment property tax revenues have been pledged until the year 2035, the final maturity date of the 2010C Bonds. The total principal and interest remaining on the 2010C Bonds as of June 30, 2016 is \$90,739,476. The 20% redevelopment property tax revenue recognized and received for the 2010C Bonds during the year ended June 30, 2016 in the amount of \$5,620,036 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the 2010C Bonds amounted to \$5,541,166 for the year ended June 30, 2016.

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**NOTE 7 – DEBT- Continued**

If the Mandatory Purchase Date is not extended, or the SARA does not exercise its option under the Fiscal Agent Agreement to redeem the 2010C Bonds on or prior to the Mandatory Purchase Date, the SARA is required to pay the Purchase Price of the 2010C Bonds on the Mandatory Purchase Date; provided, however, if on the Mandatory Purchase Date the conditions set forth below are satisfied, the SARA shall not be required to pay the Purchase Price for the 2010C Bonds on the Mandatory Purchase Date except to the extent of available proceeds from the remarketing of the 2010C Bonds. In the event that the conditions set forth below are satisfied on the Mandatory Purchase Date, the available proceeds from the remarketing of the 2010C Bonds shall, to the extent available, be applied to pay the Purchase Price for the 2010C Bonds and that portion of 2010C Bonds for which the Purchase Price cannot be paid from such proceeds shall instead be repaid in accordance with the amortization provisions set forth in the Fiscal Agent Agreement, such that the Purchase Price of the 2010C Bonds shall be paid to Wells Fargo Bank in full on the third anniversary of the Mandatory Purchase Date, subject to the earlier remarketing, repayment, acceleration, prepayment or redemption of the 2010C Bonds.

The Purchase Price of the 2010C Bonds is due and payable in full on the Mandatory Purchase Date unless on such date the following conditions are satisfied: (A) no default shall have occurred and be continuing and (B) the SARA shall be deemed to have made on and as of such date each of the representations and warranties of the Agency made in the Continuing Covenant Agreement and in any certificate or document delivered in connection with the Continuing Covenant Agreement and each such representation and warranty shall continue to be accurate and complete in all material respects on and as of such date.

***4<sup>th</sup> and San Fernando Parking Facility Project 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 Fourth Street and San Fernando Parking Facility Project. The Agency entered into an Agency Pledge Agreement with the Financing Authority, which was assumed by the SARA, whereby the payments are payable from and secured by surplus “Agency Revenues”. Under the terms of the Agency Pledge Agreement, SARA’s 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 parking facility. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the former 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.

In fiscal year 2015-16 the surplus Agency Revenues were not sufficient to make all of the required pledged payment. Therefore the City’s Parking System Fund advanced \$1,681,576 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, 2016, the Series 2001A bonds have an outstanding balance of \$26,005,000.

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**NOTE 7 – DEBT- Continued**

***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 the SARA.

In fiscal year 2015-16, the City advanced \$9,800,000 to the SARA to assist in the payment of debt service on the 2001F bonds to the Financing Authority. The Series 2001F bonds mature in 2022 and have an outstanding balance of \$89,730,013 at June 30, 2016.

***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 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. The 2006 loans were paid in full on March 1, 2016.

***HUD Section 108 Loans***

In 1997, the Agency received loan proceeds of \$5,200,000 under the provisions of the U.S. Department of Housing and Urban Development ("HUD") Section 108. The proceeds were used to finance the following downtown projects: Security Building, Bassler & Haynes and Beach Buildings ("Eu Bldgs"), and the Masson Building.

In 2006, the Agency received loan proceeds totaling 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).

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**NOTE 7 – DEBT- Continued**

As of June 30, 2016, the outstanding loans due to HUD totaled \$22,175,000. 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 the fiscal year 2016 was 0.87%. The HUD loans are secured by the City owned Fairmont Hotel Parking Garage, several SARA owned capital assets (Convention Center – South Hall, José Theatre and Arena Lot 5A) and CDBG grant funds that were awarded or will be awarded to the City. The loans are being repaid by developer payments and by the City through CDBG funds due to insufficiency of redevelopment property tax revenues. During the year ended June 30, 2016, the SARA received \$1,837,206 from the City’s CDBG fund to service the HUD 108 loans.

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

On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of \$2,050,000,000 of property tax increment in 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 \$62,200,000 in fiscal year 2009-2010 and \$12,800,000 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) a combined amount of \$74,815,668 to make the SERAF payments (“SERAF Loan”). 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 Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA. As 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.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan made from the Low and Moderate Income Housing Asset Fund administered by the City in the amount of \$52,000,000 should not be reported in the ROPS as an enforceable obligation.

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**NOTE 7 – DEBT- Continued**

On May 26, 2016, the Oversight Board approved the repayment schedule for the SERAF Loan borrowed in 2011 in the amount of \$12,815,668 plus accrued interest, and also approved a partial reinstatement of the SERAF Loan to restore the moneys originally loaned from the City’s special funds in the amount of \$10,000,000. The Oversight Board determined that the remaining portion of the SERAF Loan borrowed in 2010 in the amount of \$52,000,000 plus accrued interest in the amount of \$905,351 is not an enforceable obligation and directed the SARA to remove that portion of the loan from its financial statements. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

***Commercial Paper Obligation***

During fiscal year 2010, the City, as agent for the Agency, borrowed \$12,000,000 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 Asset 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 totaling \$14,227,000. A payment of \$4,750,000 was made by the SARA in June 2016. The repayment of the commercial paper proceeds is reported in the ROPS in the amount of \$9,477,000 as of June 30, 2016. This obligation is memorialized in the SERAF loan agreement and was approved by the Oversight Board and Successor Agency Board on May 26, 2016 and June 28, 2016, respectively.

***Tax Sharing Agreement with the County of Santa Clara***

Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement (“Original Agreement”) under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (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”), which amended and restated the Original Agreement in its entirety. In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and 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 related to the Amended Agreement (see Note 10).

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**NOTE 7 – DEBT- Continued**

At July 1, 2015, the amount due to the County was \$44,096,973. During the year ended June 30, 2016, the County withheld \$23,640,125 in RPTTF for payments of its prior year's pass-through payments. In addition, during the fiscal year 2015-2016, the SARA accrued pass-through amounts of \$25,740,859 and accumulated interest of \$808,142. The total amount due to the County under the pass-through agreement at June 30, 2016 is \$47,005,849. 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 County Settlement Agreement. The County 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 \$58,270,000 .

Pursuant to the County Settlement Agreement, the Agency agreed to pay the County \$21,500,000 of County tax-exempt bond proceeds by March 30, 2011, pay an additional \$5,000,000 of unrestricted funds, and transfer title to certain property to the County, resulting in a remaining amount of \$23,560,000 owed to the County. The Agency agreed to make payment in five installments no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

The SARA had sufficient redevelopment property tax revenues to make the first annual installment payments of \$4,712,400 in the fiscal year 2016. As of June 30, 2016, the accrued pass-through payments and accumulated accrued interest are \$18,849,600 and \$6,438,858, respectively.

***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 and B, 2003 Merged Area Revenue Bonds Series A and 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, 2016, the following assumed effective rates have been used:

<u>Debt</u>	<u>Effective Interest Rate</u>
1996 Merged Area Revenue, Series A	0.55%
1996 Merged Area Revenue, Series B	0.54%
2003 Merged Area Revenue, Series A	0.73%
2003 Merged Area Revenue, Series B	0.55%
2010 Housing Set-Aside, Series C	1.70%
HUD Section 108 loan	0.87%
SERAF Loan	0.55%

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**NOTE 7 – DEBT- Continued**

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2016, 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
2017	\$ 62,920	\$ 68,471	\$ 11,890	\$ 12,060	\$ 6,230	\$ 883	\$ 13,125	\$ 5,502
2018	65,905	65,374	12,510	11,566	4,595	1,145	13,765	4,840
2019	68,205	62,138	13,165	11,045	4,675	1,347	14,450	4,132
2020	71,330	58,668	13,840	10,492	4,765	1,529	15,155	3,398
2021	74,950	54,959	14,560	9,902	5,245	1,597	15,895	6,180
2022-2026	407,440	214,437	79,780	39,698	28,585	5,542	43,345	160
2027-2031	403,785	111,229	81,495	21,510	14,815	1,992	-	-
2032-2036	279,210	30,395	59,460	5,896	7,600	136	-	-
2037-2041	5,400	115	-	-	-	-	-	-
Total	\$ 1,439,145	\$ 665,786	\$ 286,700	\$ 122,170	\$ 76,510	\$ 14,171	\$ 115,735	\$ 24,212

Year Ending June 30	Obligations with 3rd Parties		Obligations with the City		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 16,312	\$ 6,760	\$ 27,566	\$ 430	\$ 138,043	\$ 94,106
2018	6,512	377	4,727	-	108,014	83,302
2019	1,890	424	-	-	102,385	79,086
2020	1,990	442	-	-	107,080	74,529
2021	2,100	388	-	-	112,750	73,026
2022-2026	12,221	875	-	-	571,371	260,713
2027-2031	-	-	-	-	500,095	134,731
2032-2036	-	-	-	-	346,270	36,427
2037-2041	-	-	28,408	109	33,808	224
Total	\$ 41,025	\$ 9,266	\$ 60,701	\$ 539	\$ 2,019,816	\$ 836,144

- (1) Assumes the 2010C Bonds would not be payable upon demand in the event that there is not a further extension of the April 28, 2017 Mandatory Purchase Date. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.
- (2) Assumes the 1996 A/B and 2003 A/B Bonds would not be payable on demand upon expiration of the LOCs on March 31, 2018. 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 and Series 2006D. According to the indentures for these bonds, in the event that such surety bond for any reason lapses or expires, and the remaining amount on deposit in the Bond Reserve Fund (as defined in the indentures) is less than the Bond Reserve Requirement (as defined in the indentures), the SARA is to address such shortfall by delivering to the trustee (i) a replacement surety bond, insurance policy or letter of credit or (ii) make the required deposits to the Bond Reserve Fund.

**SUCCESSOR AGENCY TO THE  
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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

**NOTE 7 – DEBT- Continued**

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**

*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 \$458,526 at June 30, 2016.

*Long-Term Reimbursement Agreement*

When redevelopment property tax revenues are not sufficient to cover the SARA’s enforceable obligations, the City Council has committed other sources of funding to cover costs related to the 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 (4<sup>th</sup> and San Fernando Parking Facility Project); Education Revenue Augmentation Fund (“ERAF”) payments; and the SARA annual administrative budget and City support service expenses. On September 26, 2013 (as amended on August 27, 2015), the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement in order to establish an obligation for the SARA to repay the City for these advances.

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

*Administrative Advances from the City*

During the year ended June 30, 2016, the SARA incurred \$613,669 of direct administrative costs and \$759,792 of indirect general and administrative costs for support services of designated City employees allocated to the SARA administrative activities and \$16,112 for rent of City office space. As of June 30, 2016, the SARA has recorded a payable due to the City for direct administrative services and indirect City supporting services in the amounts of \$4,550,571 and \$5,059,645, respectively. Since administrative costs are subordinated to all SARA enforceable obligations, these costs will likely not be paid to the City until all other enforceable obligations are satisfied.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

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

The following summarizes the changes in the City’s advances to the SARA for the year ended June 30, 2016:

<b>Description</b>	<b>July 1, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2016</b>
Reimbursement Agreement:				
Lease Revenue Bonds, Series 2001F (Convention Center)	\$ -	\$ 9,800,000	\$ -	\$ 9,800,000
Revenue Bonds Series 2001A (4th and San Fernando Street Parking Facility Project )				
	4,547,946	1,681,576	-	6,229,522
Total Reimbursement Agreement	4,547,946	11,481,576	-	16,029,522
ERAF Loan	1,615,000	-	-	1,615,000
Other Administrative Advances:				
Direct SARA Administrative services	3,936,902	613,669	-	4,550,571
Indirect City Support Services	4,299,853	759,792	-	5,059,645
Unsecured Enforceable Obligations	846,697	215,412	-	1,062,109
Support Services from the Prior Year	199,994	-	-	199,994
Total other Administrative Advances	9,283,446	1,588,873	-	10,872,319
Total Administrative Advances	\$ 15,446,392	\$ 13,070,449	\$ -	\$ 28,516,841

**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.

The SARA does not have any claims liabilities outstanding at June 30, 2016.

***Environmental Land Remediation Obligation***

A review of the SARA’s property during the year ended June 30, 2016 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 and Convention Center South Hall Site as discussed below. In the 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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For the Year Ended June 30, 2016

**NOTE 9 – COMMITMENTS AND CONTINGENCIES - Continued**

**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 6<sup>th</sup> Street in San José. The Agency as owner of the underlying land leased the site under a ground lease (the “Ground Lease”) to the Japantown Development Limited Partnership (“Miraido”). Miraido constructed an apartment complex on the Ground Lease site. The Agency received a Notice of Responsibility 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, 2016, Miraido’s consultant at the direction of 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. Upon completion, Miraido expects to receive a ‘No Further Action’ letter.

Miraido is responsible for all cleanup activities under its Ground Lease with the Agency. Miraido’s consultant has estimated that the cost to achieve case closure is approximately \$450,000 at Miraido’s cost, with which the SARA’s consultant concurs. Under the Ground Lease, Miraido is required to indemnify the SARA if the SARA incurs any costs as a result of the condition of the property. As of June 30, 2016, the SARA has not incurred any cleanup cost. Miraido’s failure to indemnify the SARA as required under the Ground Lease would constitute a default under the Ground Lease.

**Convention Center South Hall Site** – The South Hall Site is contaminated with gasoline and diesel products. The San Francisco Regional Water Quality Control Board (“Regional Board”) has requested a Site Management Plan be prepared for the site. The Regional Board also requested a residential deed restriction be placed on the South Hall Site. A Phase I and Phase II study of the South Hall Site was prepared for the Agency indicating site contamination. There are no immediate plans to prepare a Site Management Plan. The extent and cost of mitigating the contamination is unknown.

***Arbitrage Obligation***

Subsequent to the dissolution of the former Agency, the SARA Board appointed the City Director of Finance as the SARA’s Chief Financial Officer. The Chief Financial Officer directed a comprehensive review of compliance with regulatory and tax compliance of the SARA’s debt portfolio. As a result of that review, it was determined that arbitrage rebate calculations were required for a number of the outstanding tax-exempt bonds in SARA’s debt portfolio. The City on behalf of the SARA has engaged the services of a rebate consultant. Staff of both the SARA and the City are working with the rebate consultant to complete the calculations. The SARA may owe arbitrage rebate to the IRS, but at this point the amount due is unknown.

***Contractual Commitments***

At June 30, 2016, the SARA had \$874,783 for contracted obligations and commitments. In addition, the SARA has unpaid contractual obligations in the amount of \$4,647,011 due to the insufficiency of revenues.

**SUCCESSOR AGENCY TO THE  
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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

**NOTE 9 – COMMITMENTS AND CONTINGENCIES - Continued**

***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%. The SARA contributions are based on a formula taking into account employee annual base salary and length of service. The total payroll for the year ended June 30, 2016 for the SARA’s direct employees was \$524,732. Both the SARA and the participating employees made contributions to the Plan amounting to \$54,462 and \$21,304, respectively. 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. 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 the SARA’s obligations under the Plan must also be approved by the Oversight Board.

***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, 2016, is as follows (in thousands):

<u>Year Ending June 30</u>	<u>Minimum Payments</u>
2017	\$ 849
2018	852
2019	764
2020	504
2021	225
2022-2023	353
Total	<u>\$ 3,547</u>

The total rent expense for operating leases during the year ended June 30, 2016 was \$759,590.

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

**NOTE 10 – LITIGATION**

*Litigation Against County Auditor-Controller*

The City, on its own behalf, and the SARA filed a lawsuit on June 26, 2012, entitled *City of San Jose as Successor Agency to the San Jose Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.*, Case No. 34-2012-8000190, in the Superior Court for Sacramento County. The suit seeks to compel the County Auditor Controller to disburse funds to the Successor Agency which the Agency previously received as tax increment. In June, 2012, the County began withholding a portion of defined tax increment claiming the withheld amounts were special levies, including 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”). The County asserted that, although it previously disbursed these funds to the Redevelopment Agency as tax increment, the Agency was never entitled to receive funds attributable to these levies. The lawsuit will also determine the priority of the County’s pass-through payments under the Amended Agreement. The Sacramento Superior Court ruled that the County Auditor Controller could not withhold funds attributable to the PERS levy from the Successor Agency and the Redevelopment Dissolution Law did not require the County to subordinate its pass through payments to any Agency debt other than secured bond debt. The Superior Court did not rule on the Water District Levy.

The City and County both appealed the Superior Court decision to the Third District Court of Appeal, Case No. C074539 (“Court of Appeal”). The Court of Appeal held oral argument on September 26, 2016. On November 3, 2016, the Court of Appeal issued a decision finding that the PERS levy tax increment was wrongfully withheld by the County prior to September 22, 2015, and the issue of the withholding of that increment after that date to the present is to be the subject of a further trial court hearing. In addition, the appellate court found that the County’s pass through agreement was subordinate to bond debt of the Agency, but not other Agency debt based upon the express provisions of the Redevelopment Dissolution Law.

The County has continued to withhold the revenues associated with the special levies, and at June 30, 2016, the amount withheld from the SARA is approximately \$39,113,474. It should be noted that SB 107, which became effective on September 22, 2015, contains a provision that special property taxes approved by the voters of a taxing entity to make payments in support of pension programs or in support of capital projects and programs related to the State Water Project, and levied in addition to property taxes, shall be allocated to, and when collected shall be paid into, the fund of that taxing entity, unless the amounts in question are pledged as security for payment of an enforceable obligation and needed for payment thereof. SB 107 will affect the future allocation of funds distributed by the County-Auditor Controller into the SARA’s RPTTF.

**NOTE 11 – SUBSEQUENT EVENTS**

On October 10, 2013, the SARA Oversight Board approved the transfer of government purpose assets with the book value of \$9,889,728 at June 30, 2014 to the City. The SARA transferred seven properties with the book value of \$2,441,592 in July 2015, and the remaining properties with the book value of \$7,448,136 transferred in August 2016. The transfer of these properties was reviewed and approved by the DOF.

**SUCCESSOR AGENCY TO THE  
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Notes to Basic Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 – SUBSEQUENT EVENTS - Continued**

In July 2016, the SARA sold property (92 South Montgomery Street) to Imwalle Annex HBD, LLC, with the net book value of \$1,363,658 for \$613,000 and recognized a loss of \$753,574 after transaction costs.

In August 2016, the SARA sold property (226 Balbach Avenue) to the City with the book value of \$2,374,931 for \$2,400,000 and recognized a net gain of \$22,888 after transaction costs. The net proceeds of \$1,918,255 were used to redeem 2003 Merged Revenue Series A bonds and \$479,563 was used to pay the accrued interest owed to the County under the County Settlement Agreement (Note 7).

In August 2016, the SARA sold property (300 South Almaden Boulevard) to the County of Santa Clara with the net book value of \$1,304,000 for \$96,000 and recognized a loss of \$1,208,761 after transaction costs.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT  
AUDITING STANDARDS***

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Board of Directors  
Successor Agency to the  
Redevelopment Agency of the City of San José  
City of 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 to the Redevelopment Agency of the City of San José (the “SARA”), a component of the City of San José, as of and for the year ended June 30, 2016, 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 16, 2016.

**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 design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the SARA’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 the SARA’s 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 from 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*.

#### Intended purpose

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 SARA'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 SARA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Grant Thornton LLP*

San José, California  
November 16, 2016