



THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

A Component Unit of the City of San José, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2005

2005



10th Largest U.S. City

www.sjredevelopment.org

Photos: Included in this CAFR are photos of some notable redevelopment projects of the Agency. The cover photos from left to right are San Jose BioCenter in Edenvale Technology Park, Mexican Heritage Plaza and Cultural Center in Alum Rock Neighborhood Business District, and San Jose Downtown at Night.



Neighborhood Skatepark



Downtown

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

A Component Unit of the City of San José, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2005

PREPARED BY:

Harry S. Mavrogenes
Executive Director/
Chief Administrative Officer

David C. Baum
Director of Finance/
Chief Financial Officer

FINANCE DIVISION

2005



Redevelopment Agency of the City of San Jose

(A Component Unit of the City of San José, California)

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2005

Prepared by:

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Executive Director/
Chief Administrative Officer

David C. Baum
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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2005

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Dr. Martin Luther King Jr. Library



Plaza de San Jose

Introductory Section

October 5, 2005

To the Honorable Mayor, Members of the Board of Directors of the
Redevelopment Agency of the City of San José and the
Citizens of the City of San José:

State law requires that the Redevelopment Agency of the City of San José (the Agency) publish a complete set of financial statements presented in conformity with the accounting principles generally accepted in the United States of America (GAAP) applied to governmental entities. The financial statements are to be audited by a certified public accountant in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Pursuant to that requirement, we hereby issue this Comprehensive Annual Financial Report (CAFR) of the Agency for the fiscal year ending June 30, 2005.

This is the 5th consecutive year that the Agency has produced a CAFR, which is prepared in conformance with the Governmental Accounting Standards Board (GASB) Statement 34 reporting model. This report consists of management's representations concerning the finances of the Agency. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, the management of the Agency has established a comprehensive internal control framework that is designed both to protect the Agency's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Agency's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Agency's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Agency's financial statements have been audited by Macias Gini & Company LLP, CPAs, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and

disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Agency's financial statements for its governmental activities and each major fund for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report, which can be found on pages 12 and 13.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found on pages 14 to 26 following the report of the independent auditor.

PROFILE OF THE AGENCY

The Agency was established in 1956 under California State Law by the San José City Council and is a separate legal entity from the City of San José (the City) dedicated to improving the quality of life in the City of San José. The City of San José is the 10th largest city in the United States, has the nation's best public safety record of any metropolitan area, is America's Most Livable Big City, and is California's third largest city. In 1975, the San José City Council declared itself the Agency Board of Directors (Board), replacing a separate board. The City Council consists of a Mayor and ten Council members. The Mayor is elected at-large for a four-year term. Council Members are elected by district, also for four years. Effective January 1, 1991, the Council members were limited to two consecutive terms, consistent with the term limit for the Mayor. The Agency's Executive Director/Chief Administrative Officer is responsible for the operations of the Agency and reports directly to the Agency Board (City Council).

As an agency of the State of California, it performs all activities authorized under the California Redevelopment Law. That law clarifies an important difference between the Agency and the City in the use of the Agency's funds. While City revenues may be used for the full range of city services, redevelopment agency funds generally must be spent only on programs and projects that benefit the redevelopment areas - primarily for physical improvements to correct blighted conditions - not for operating costs such as police or fire protection. For more than two decades, the Agency has been revitalizing and enlivening the City's downtown, neighborhoods, and industrial areas to meet the needs of a dynamic and diverse community. As of June 30, 2005, the Agency has twenty-one (21) ongoing redevelopment project areas (see geographic locator map on page 11), which are grouped into 4 area categories: Downtown, Neighborhood Business Districts/Clusters, Industrial, and Strong Neighborhoods Initiative. The Agency is one of the largest redevelopment agencies in the State of California in terms of both capital budget and tax increment revenue generation.

The California Redevelopment Law also provides tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area is adopted, the agency can only receive tax increment to the extent that it can show on an annual basis that it has incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, agency liabilities normally exceed assets, thus resulting in a deficit in the statement of net assets. Therefore, the Agency traditionally carries a deficit to collect tax increment revenues.

The Agency used the criteria in conformity with the standards prescribed by GASB in determining that there are no component units for which the Agency is responsible for inclusion in its financial statements. Under GASB Statement No. 14, *The Financial Reporting Entity*, the Agency is considered as a component unit of the City of San José and is blended in the City's basic financial statements.

The annual budget serves as the foundation for the Agency's financial planning and control. Prior to June 30, the annual budget is finalized and presented to the Agency Board. At the time the budget is approved, the Board also adopts the annual appropriation resolution and annual revenue resolution, which incorporates the expected revenues and expenditures, as they are delineated in the budget. The level of budgetary control, at which expenditures cannot legally exceed the budgeted amount, is at the appropriation level. However, management can transfer budgeted amounts between activities included in each appropriation without the approval of the Agency Board.

The Agency also maintains an encumbrance accounting system as one method of maintaining budgetary control. Year-end encumbrances are carried forward and become part of the following year's budget. Appropriations that are not encumbered lapse at the end of the fiscal year. Budget-to-actual comparisons (using the budgetary basis of accounting) are provided in this report for all governmental funds for which the appropriated annual budget has been adopted. For the general fund and special revenue fund, the comparisons are presented under Other Required Supplementary Information on pages 63 to 66. For the debt service funds and capital projects fund, the comparisons are presented under Other Supplementary Information subsection of this report on pages 67 to 71.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Agency operates.

Local economy. The City of San José has the largest concentration of technology in the world with over 6,600 technology companies employing more than 254,000 people. The Agency's Downtown and Industrial Redevelopment Project areas are

concentrations of high technology companies and the highest tax increment revenue generating areas.

During the fiscal year 2004-05, the City of San José continued to feel the effects of the weak national and local economies, which have impacted property values. However, Santa Clara County, which includes the City of San José, reported that the market values of residential property in some areas have stabilized and improved, but the commercial and industrial property values have decreased. As a result of this, the total assessed value of properties in Santa Clara County grew only by 2.23% for 2004-05, the lowest growth rate in a decade. The weak economic situation for fiscal year 2004-05 has continued to affect the Agency with an 11.5% decline in the total assessed values of properties in the merged redevelopment areas as of January 1, 2004. The decline in the assessed values of properties is due to the decline in real estate transactions and new construction. Many of the high-technology businesses located in the Downtown and Industrial Redevelopment Project areas either continued to dispose of machinery, equipment, computers and fixtures or did not expand their plant facilities and invest in new equipment. These combined factors contributed to the overall 11.5% decline in the assessed value of property in the redevelopment areas.

Long-term financial planning. Beginning with fiscal year 2005-06, the City of San José and the Silicon Valley, as a whole, have experienced modest economic recovery, evidenced by an increase in real estate and equipment investments. This modest recovery has cascaded through the Agency, thereby improving tax increment revenue streams beginning in fiscal year 2005-06 that strengthened its ability to continue to focus on its Investing in Results Initiative Program. In this program, the Agency has established four core service areas, namely:

- A. Promote and Implement Neighborhood Improvement Strategies,
- B. Enhance the Quality and Supply of the City's Housing Stock,
- C. Initiate and Facilitate Public Facilities and Spaces, and
- D. Initiate and Facilitate Private Development.

These core services constitute the strategic goals that direct the Agency's redevelopment project areas and budgets. Budgeting for each core service is incorporated in the 2005-2006 Operating and Capital Budgets that were adopted by the Board (City Council) on June 21, 2005. These budgets were amended on August 1, 2005 to include Five-Year Projection and Two-Year Spending Plan. On September 13, 2005, the Agency Board further approved the FY 2006-07 Capital Improvement Program and amended the 2005-06 Operating and Capital Budgets. The total budget for the fiscal year 2005-2006 aggregated to \$383 million and is allocated as follows: \$191 million for capital projects/programs, \$30 million for the State mandated set-aside housing funds, \$122 million for debt service on outstanding debt, \$0.9 million for AB1290 pass-through revenue sharing, \$8 million for operating expenditures, and \$14.2 million for County pass-through payments and County administrative expenditures, \$16 million for Educational Revenue Augmentation Fund (ERAF) loan repayment, and \$0.9

million for other obligated payments. The budget for the four core service areas, which is included in the capital projects/programs, is comprised of \$63 million for neighborhood improvement strategies, \$40 million for public facilities, \$23 million for housing stock, \$52 million for private development and \$13 million for capital operating costs.

The Agency's Five-Year Projection (FY 2006–2010) that was approved on September 13, 2005 shows a total spending of \$1.3 billion. Of this amount, \$323 million will be spent on capital expenditures, \$862 million for financing/non-project costs, \$28 million for operating expenditures, and \$129 million for obligated payments. Tax increment revenues will provide \$859 million or 59% of the overall funding source of the Five-year Spending Plan while proceeds of bond issues of \$251 million will provide 19%. Other revenues of \$232 million from ERAF and parking loans, interest earnings, developer contributions and rental income will provide the remaining 22% funding requirements.

Major current and future initiatives. The Agency's major redevelopment projects during fiscal year 2004-05 include funding of the Strong Neighborhoods Initiative (SNI) for \$14 million, Neighborhood Business Districts (NBD) for \$14.5 million and existing contractual commitments of approximately \$100 million.

SNI has over 24 ongoing projects including 13th Street Streetscape Improvements, construction of the Edenvale Community Recreation Association Community Centers, rehabilitation of the Richmond-Menker Apartments, and the construction of the Plata Arroyo Skatepark.

NBD has over 20 projects that include Story and King Public Improvements, Bellevue Park and numerous facade improvements.

The contractual commitment includes the CIM mixed-use (retail and housing) project, renovation of major un-reinforced masonry buildings, Biotech Incubator, and Software Business Cluster.

The Agency will continue and complete these projects in the next fiscal years and has added North San José Intensification Project with estimated costs of around \$30 million scattered throughout the life of the project.

Cash management policies and practices. By Agency policy, funds are invested in compliance with the investment policy of the City of San José. As such, the Agency is permitted to invest in the City's cash and investment pool, obligations of the U.S Treasury or its agencies, certificates of deposit, mutual funds invested in U.S. government securities, and other permitted investments. The City's investment policy objectives are to minimize credit and interest rate risks, provide sufficient liquidity to meet all possible cash demands, and attain the maximum yield possible while adhering to the first two objectives.

Debt and net assets (deficit) management. At year-end, the Agency had a number of debt issues outstanding. Of the total outstanding debt of \$2 billion, \$1.8 billion represents various issues of tax allocation bonds (TABs) that are senior/parity debt. Bonds that are categorized as senior/parity debt have senior payment priority over other Agency obligations.

The debt issues will be repaid from future collections of tax increment revenues. Tax increment revenues expected by the Agency through year 2040 (last day to pay current debt) total \$3.1 billion. This amount is also more than enough to cover the Agency's net deficit of \$1.5 billion (see Statement of Net Assets on page 27).

In accordance with the California Community Redevelopment Law, the Agency established in 1986 the maximum amount of revenue it may receive from the redevelopment areas in the amount of \$7.6 billion. Accordingly, the Agency is limited in the issuance of debt by the aggregate amount of debt service required to pay off outstanding bonds. As of June 30, 2005, the Agency cumulatively received approximately \$2 billion of tax increment revenues.

Pursuant to outstanding bond covenants, the Agency must make an annual calculation, no later than December 1 of each year (commencing with December 1, 2004), of the future cumulative debt service on all outstanding debt secured by tax increment.

As a guarantee of debt payment when due, bond insurance policies were purchased for these TABs from major insurance companies – MBIA Insurance Corporation, AMBAC Assurance Corporation, and Financial Guaranty Insurance Company. The benefit of obtaining insurance is several million dollars in present value interest savings, since the cost of municipal bond insurance is offset by the reduction of the bond interest rate.

Risk management. The Agency carries commercial and general liability property insurance policies. In addition, third-party coverage is maintained for worker's compensation claims. The insurance premiums are funded as part of the operating costs in the general fund, and insurance claims are recognized in the capital projects fund. In addition, the Agency has instituted a safety program that minimizes losses and the carrying cost of worker's compensation coverage.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (page 8) to the Agency for its CAFR for the fiscal year ended June 30, 2004. The Certificate of Achievement for Excellence in Financial Reporting Award is the highest form of recognition in financial reporting for state and local governments, including local government agencies. Last year's report was the fourth CAFR produced by the Agency, which has continuously received this prestigious award. In order to be

awarded a Certificate of Achievement, a CAFR should give a clear and thorough view of the government's finances. It should enhance the reader's understanding of the information required by GAAP for fair presentation of the financial statements, be efficiently organized, and adhere to certain accounting terminology and GFOA formatting conventions. The report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our CAFR for this fiscal year ended June 30, 2005 continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report reflects the desire of the Agency's management to maintain the highest standards of financial reporting. This project could not have been possible without the efforts and dedicated services of the staff of the Agency's Finance Division. We would like to express our appreciation to the staff of the Agency who assisted and contributed to the preparation of this report (*back of title page*). We particularly express our appreciation to the staff of Macias Gini & Company LLP, CPAs for their significant support and guidance. Due credit should also be given to the Mayor and the Agency Board for their progressive and responsible leadership in the fiscal affairs of the Agency.

Respectfully submitted,



Harry S. Mavrogenes
Executive Director/
Chief Administrative Officer



David C. Baum
Director of Finance and
Information Technology/
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Redevelopment Agency
of the City of San Jose,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



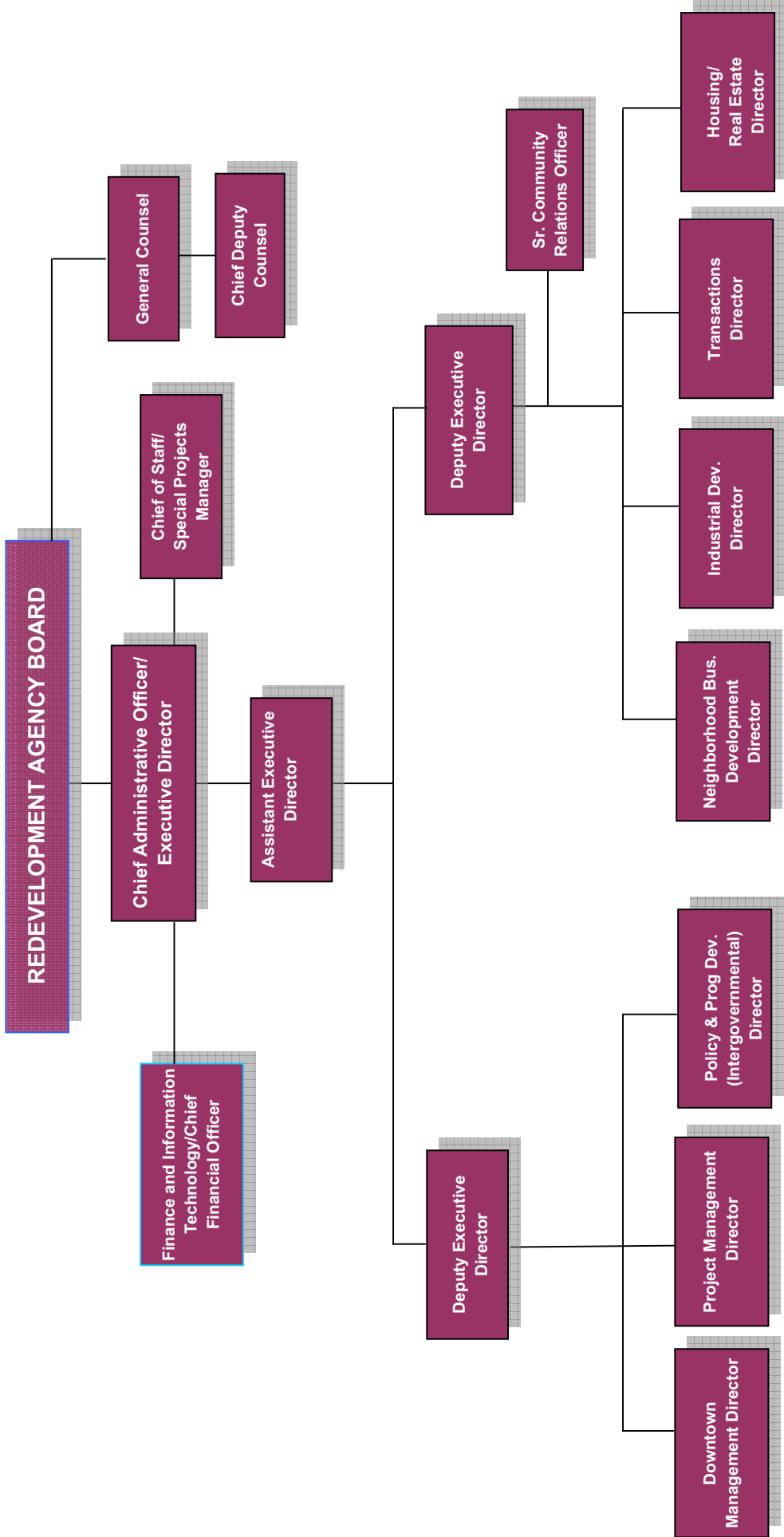
Nancy L. Zielle

President

Jeffrey R. Emor

Executive Director

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Organizational Chart



**BOARD OF
DIRECTORS/
SAN JOSE
CITY
COUNCIL**



Chairman
Mayor Ron Gonzales
Term Expires 12/31/06



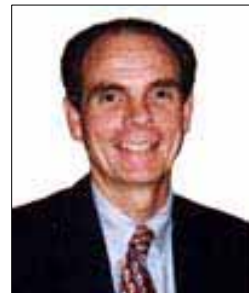
Vice Chairman
Vice Mayor Cindy Chavez
District 3
Term Expires 12/31/06



Linda J. LeZotte
District 1
Term Expires 12/31/06



Forrest Williams
District 2
Term Expires 12/31/08



Chuck Reed
District 4
Term Expires 12/31/08



Nora Campos
District 5
Term Expires 12/31/06



Ken Yeager
District 6
Term Expires 12/31/08



Madison Nguyen
District 7
Term Expires 12/31/06



David D. Cortese
District 8
Term Expires 12/31/08



Judy Chirco
District 9
Term Expires 12/31/06



Nancy Pyle
District 10
Term Expires 12/31/08

San Jose Bay Area



California

USA

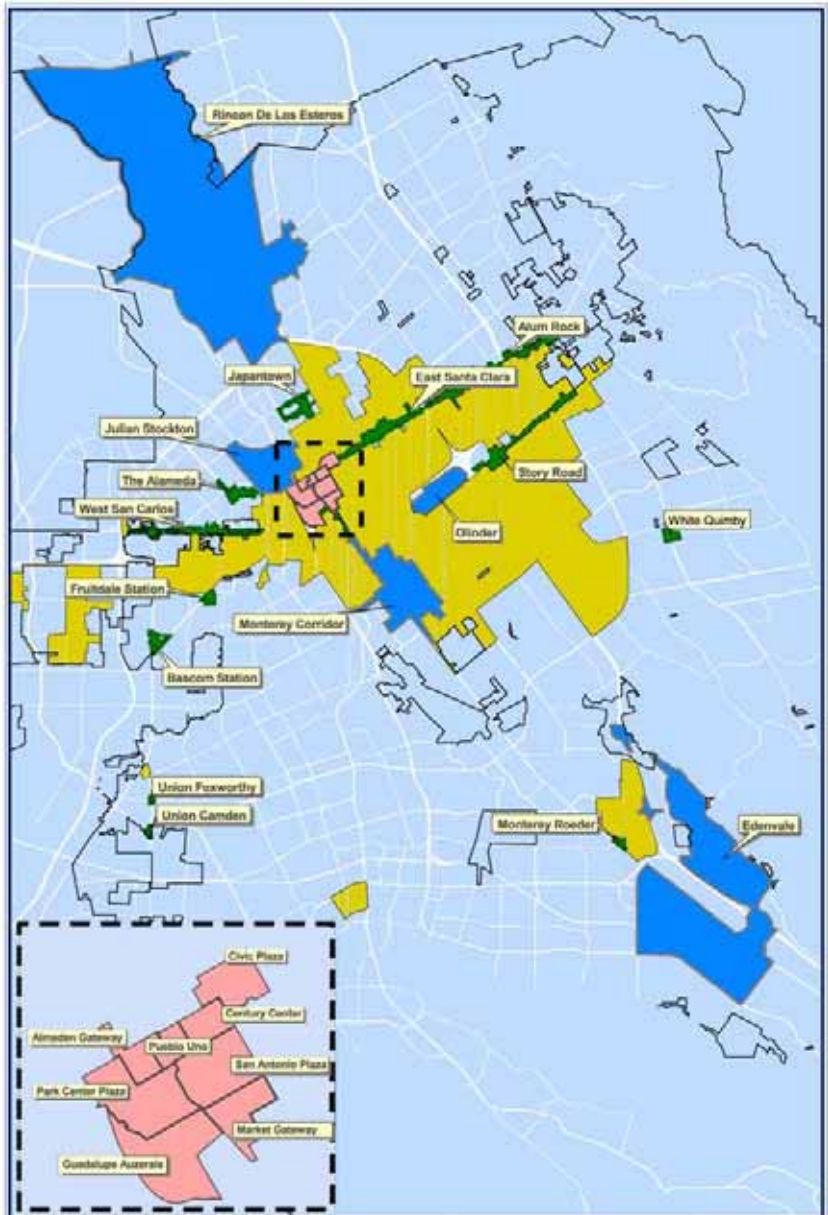


San Jose

*Geographic
Locator Map*

Redevelopment project areas:

-  *Downtown*
-  *Industrial*
-  *Neighborhood Business Districts/Clusters*
-  *Strong Neighborhoods Initiative*



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Altera, Rincon Technology Park



Fourth Street Garage

Auditor's Report



MACIAS GINI & COMPANY_{LLP}

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
Walnut Creek, California 94596

925.274.0190 PHONE
925.274.3819 FAX

The Board of Directors
Redevelopment Agency of the
City of San Jose, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of San Jose, California (Agency), a component unit of the City of San Jose, California, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

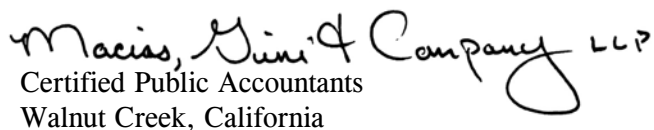
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2005, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I.C.10 to the basic financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2005, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information for the general fund and special revenue fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The information identified in the table of contents as the introductory, other supplementary information, and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Certified Public Accountants
Walnut Creek, California

September 13, 2005



Tierra Encantada Affordable Housing



Monopoly in the Park

Management's Discussion and Analysis

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis June 30, 2005

As management of the Redevelopment Agency of the City of San José (the Agency), we offer readers of the Agency's basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found beginning on page 1 of this CAFR report.

FINANCIAL HIGHLIGHTS

Liabilities of the Agency exceeded its assets in governmental activities at the close of fiscal year 2005 by \$1,540,359,000 (net assets deficit). Of this amount, \$6,831,000 represents investment in capital assets, and \$79,031,000 represents resources restricted for debt service payment and low/moderate income housing activities. The remaining negative amount of \$1,626,222,000 represents the accumulated unrestricted deficit at the close of fiscal year 2005.

Total revenues in the governmental activities decreased by a net amount of \$22,323,000 or approximately 10% from last year. The net decrease is attributable to the decline in tax increment revenue by \$20,232,000 and capital grants and contributions by \$12,364,000.

Total expenses in governmental activities were \$97,313,000 (change in net assets) more than the \$197,242,000 total revenues generated during the current year. Compared to last year, total expenses in governmental activities decreased by \$64,860,000 or by 18%. The decline in expenses is attributable mainly to the \$47,383,000 or 26% decrease in community development improvement projects.

At the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$232,669,000, a decrease of \$30,892,000 in comparison to the prior year. Of the combined fund balance, \$82,753,000 or 36% is available for redevelopment projects at the discretion of the Agency Board (City Council).

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (Continued) June 30, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* reports all financial and capital resources of the Agency. The Agency presents the statement in a format that displays assets less liabilities equal net assets/(deficit). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes and earned but unused vacation and sick leave.

The *governmental activities* of the Agency include general government, community development, housing, and debt service. The government-wide financial statements can be found on pages 27 and 28 of this report.

Fund Financial Statements

Fund Financial Statements are designed to report information about groupings (*funds*) of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses *fund accounting* to ensure and demonstrate finance-related legal compliance. All *funds* of the Agency are categorized as *governmental funds*.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the *government-wide financial statements*. However, unlike the *government-wide financial statements*, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Agency's redevelopment programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains several individual governmental funds created according to their purpose. The individual fund information is presented separately in the governmental fund balance sheet (page 29) and in the governmental fund statement of revenues, expenditures and changes in fund balances (page 31) for all the Agency's governmental funds.

Notes to the Basic Financial Statements

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 to 62 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Agency's budgetary comparison for certain governmental funds – general fund and special revenue fund (pages 63 to 66).

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, it is also an important determinant of its ability to finance current and future redevelopment projects.

At the close of fiscal year 2005, the Agency has a net deficit of \$1,540,359,000. Of this amount, \$6,831,000 is invested in capital assets, \$43,734,000 is restricted for debt service, and \$35,298,000 for low and moderate-income housing. The remaining negative balance of \$1,626,222,000 represents a deficit, which will be covered from collection of future tax increment and other revenues. The largest portion of the Agency's deficit is caused by the outstanding long-term obligations of \$2,150,806,000. Traditionally, the Agency carries a deficit to collect tax increment as mentioned earlier in the letter of transmittal. This is primarily due to the nature of tax increment financing method allowed under California law whereby a redevelopment agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues.

The Agency uses debt proceeds to finance its redevelopment projects which include land, commercial and retail buildings, housing, public parking, street improvements, park improvements, transportation improvements, cultural facilities, and community centers. Once redevelopment projects that are public facilities are completed by the Agency, the responsibilities for their continued maintenance and operations are transferred to the City of San José including the capitalized redevelopment project costs. Listed below are some notable public facilities transferred to the City:

- San José McEnery Convention Center,
- Children's Discovery Museum,
- San José Museum of Art,
- HP Pavilion at San José (Arena),
- Tech Museum of Innovation,
- Mexican Heritage Plaza,
- Guadalupe River Park and Gardens,
- Dr. Martin Luther King Jr. Library,
- Washington United Youth Center and Biblioteca LatinoAmericana,
- San José Repertory Theater,
- 4th Street Parking Garage, and
- California Theater

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)
June 30, 2005**

In addition, completed Joint Agency-Private Partnership projects with private developers are also transferred to the developers in accordance with the Development and Disposition Agreements. Although completed public facilities and Joint Agency-Private Partnership projects are transferred to the City of San José and private developers, respectively, the related debt remains with the Agency.

Shown below is a comparative schedule that summarizes the Agency's net assets (deficit):

Agency's Net Assets (Deficit)
Governmental Activities
As of June 30, 2005 and 2004
(In thousands)

	2005	2004
Current and other assets	\$ 316,473	\$ 369,898
Accumulated redevelopment project costs	355,040	360,217
Capital assets, net	6,831	7,008
Total assets	678,344	737,123
Long-term liabilities	2,150,806	2,085,325
Other liabilities	67,897	94,844
Total liabilities	2,218,703	2,180,169
Net assets:		
Invested in capital assets	6,831	7,008
Restricted net assets	79,032	38,040
Unrestricted net assets (deficit)	(1,626,222)	(1,488,094)
Total net assets	\$ (1,540,359)	\$ (1,443,046)

The Agency uses its accumulated redevelopment project costs and capital assets of \$361,871,000 (see pages 47 and 48 for additional information) to provide community development services to the citizens of the City of San José. These assets are not available for future spending and cannot be used to liquidate the Agency's debt since the resources needed to repay the debt will be provided primarily from collections of future tax increments and other revenues.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)
June 30, 2005**

Long-term liabilities are mainly represented by tax increment revenue bonds and housing set-aside bonds issued to finance redevelopment projects. The change from last year represents a net increase due to the Housing Set-aside Tax Allocation Bonds 2005 Series A, B C and D issued during the year aggregating to \$195,870,000.

Governmental activities. Overall the Agency's financial position decreased from the prior year. Under the governmental activities, the Agency's net deficit increased by \$97,313,000 from the previous fiscal year. The increase accounts for 6 percent of the accumulated deficit.

Key elements of the changes in net assets of the governmental activities are presented below:

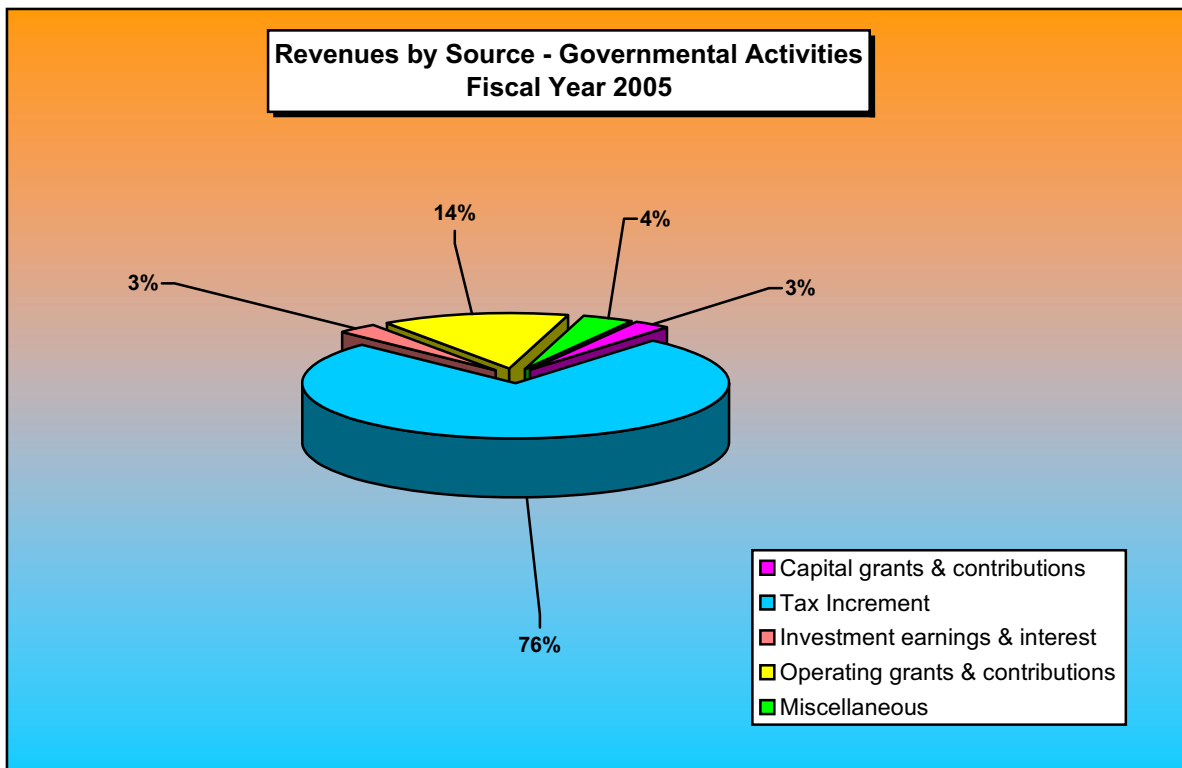
Agency's Changes in Net Assets (Deficit)
For the Fiscal Years Ended June 30, 2005 and 2004
(In Thousands)

	2005	2004
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 27,547	\$ 24,172
Capital grants and contributions	5,749	18,114
General revenues:		
Tax increment	149,977	170,208
Unrestricted investment earnings	6,029	4,331
Miscellaneous	7,940	2,740
Total revenues	197,242	219,565
Expenses:		
General government	8,498	22,270
Community development	134,001	181,384
Housing	60,545	61,678
Debt service	91,512	94,084
Total expenses	294,556	359,416
Change in net assets	(97,313)	(139,851)
Net assets deficit - beginning of year	(1,443,046)	(1,303,195)
Net assets deficit - end of year	\$(1,540,359)	\$ (1,443,046)

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

- Tax increment, which represents approximately 76% of total revenues, decreased from last year by \$20,231,000 or 12%. The decrease was due to the effects of the continuing weak local economy that triggered a rise in assessment appeals from property owners, declining value of R&D/office property in redevelopment project areas, and declining real estate transactions.
- Capital grants and contributions under program revenues decreased by \$12,365,000 from last year. Last year's amount was higher due mainly to the repayment of a short term Educational Revenue Augmentation Fund (ERAF) loan obtained from the City of San José. This year, the ERAF money was generated from a loan obtained from California Statewide Communities Development Authority (CSCDA).

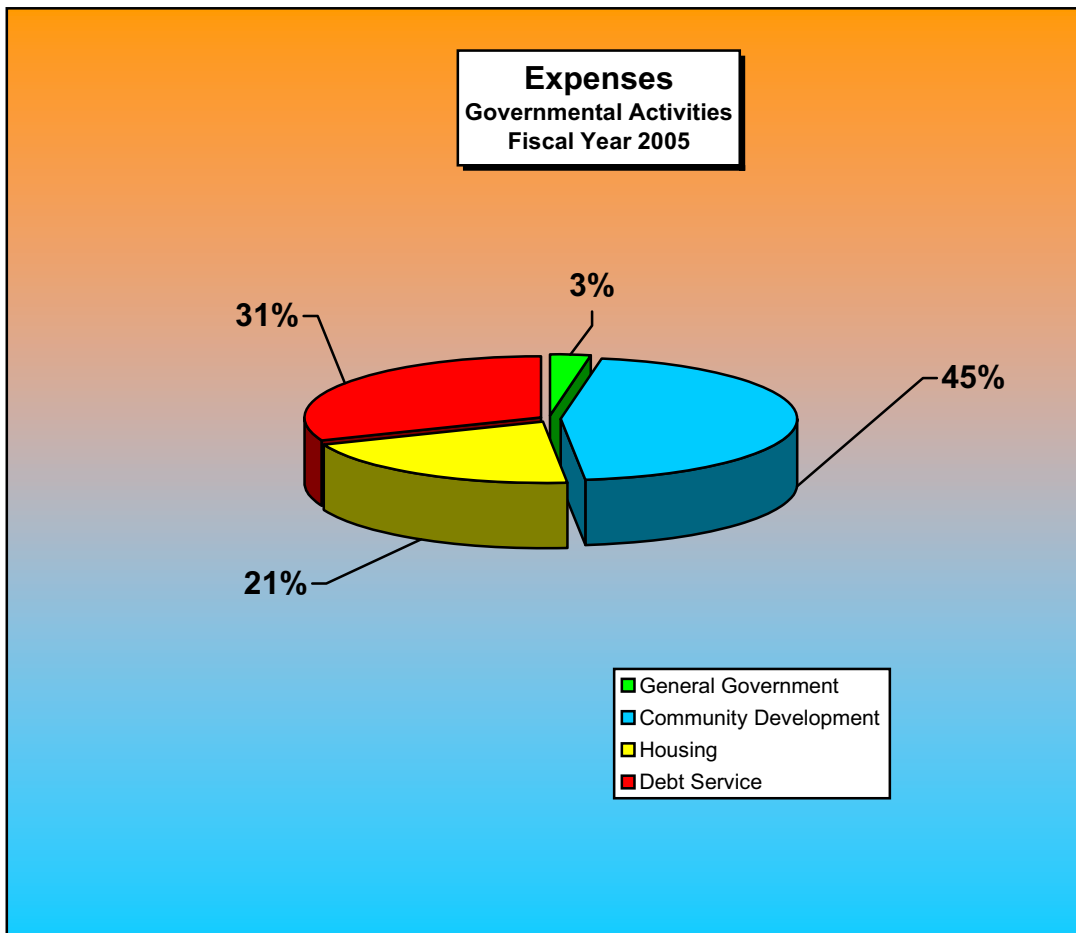


- Community development expenses of \$134,001,000, which represent approximately 45% of Agency's total governmental expenses (see graph on page 21), decreased by \$47,383,000 or 26%. The decrease is mainly due to deferral of several redevelopment projects during the year.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)
June 30, 2005**

- Housing expenses decreased by \$1,134,000 or 2% from last year. The decrease is the net effect of the decline (\$4,202,000) in payments to the City for housing projects resulting from lower tax increment, and increase (\$3,068,000) in housing debt service payment.



- Total general government expenses of \$8,498,000 decreased by \$13,772,000 or 62% from last year. The decrease was mainly due to the Agency's change in recording personnel and non-personnel costs totaling to \$11,369,000 from general government to community development. Overall, salaries, wages and benefits decreased by around \$1,815,000 due to reduced staffing as part of the Agency's cost cutting measures.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As noted earlier, the Agency uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Agency's financial requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Individual fund information of governmental funds reported by the Agency includes general fund, special revenue fund, housing debt service fund, merged debt service fund, and capital projects fund, which are all considered major funds.

At the end of the current fiscal year, the Agency's governmental funds reported *combined fund balances* of \$232,669,000, a decrease of \$30,892,000 in comparison with the prior year. Of this total amount, \$82,753,000 constitutes *unreserved fund balance*, which is available for redevelopment spending at the discretion of the Agency Board. The remainder of the fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$78,869,000), 2) to reflect the amount of assets that are long-term in nature and thus do not represent available spendable resources (\$3,693,000), 3) to pay for low and moderate-income housing projects (\$35,298,000), and 4) to liquidate contractual commitments of the period (\$32,056,000).

General fund. The Agency's general fund is used to account for the general and administrative expenditures. Fund transfers from the capital projects fund are made to the general fund as general and administrative expenditures are incurred and deemed necessary. Fund balance of the general fund aggregated to \$233,000, a decline of around \$6,472,193 from previous year. The decline was due to the reduced fund transfer from capital projects fund as a result of a change in recording project related personnel and non personnel costs from the general fund to the capital projects fund.

Special revenue fund. The special revenue fund is used to account for the portion of tax increment revenue designated for low and moderate-income housing. As required by the California Community Redevelopment Law, the Agency allocated 20 percent (\$29,995,000) of the tax increment received during the year for low and moderate-income housing projects. At the end of the current year, the fund balance of the special revenue fund was \$50,000, representing 20% tax increment housing set aside still to be received from the County of Santa Clara.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

Debt service funds. The debt service funds have a total fund balance of \$114,117,000, representing Housing Debt (\$35,251,000) and Merged Debt (\$78,866,000). The total fund balance in the Agency's debt service funds increased by \$37,380,000 in the current year mainly due to the unspent proceeds of refunding housing bonds issued during the year.

Capital projects fund. The fund balance in the Agency's capital projects fund had a net decrease of \$61,851,000 from last fiscal year as the result of total revenues and other fund financing sources (\$88,032,000) being lesser than the aggregate expenditures and other fund financing uses (\$149,883,000).

Total capital outlay expenditures of \$65,422,000, which represents around 44% of the overall expenditures, decreased by \$36,617,000 or around 34%. When compared to last year's capital activity decrease of \$159,367,000 or 60%, this year's decline is the result of continuing deferral of several capital project activities due to the declining tax increment revenues caused by a downturn in the economy.

General Fund Budgetary Highlights

As previously mentioned, the general fund only accounts for the Agency's general and administrative expenditures. During the year, changes to the general fund original budget were approved by the Board, as follow:

- Decrease in personnel services budget by \$9,014,000.
- Decrease in non-personnel services budget by \$4,025,000.

The decrease in the original budget was due mainly to the shift of personnel and non-personnel services budgets associated with capital projects aggregating to \$11,367,000.

Total actual expenditures on budgetary basis of \$8,612,000 were lower by \$686,000 from the amended budget amount of \$9,298,000 as a result of continuing cost cutting measures, such as elimination of a number of positions and reduction in consultant contracts not related to contractually obligated projects, initiated throughout the year. During the year, actual budgetary expenditures exceeded actual budgetary revenues by \$7,344,000, which triggered a \$675,000 fund transfer from capital projects fund to the general fund to supplement the beginning fund balance of \$6,706,000.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

Accumulated Redevelopment Project Costs and Capital Assets

Accumulated Redevelopment Project Costs

The Agency's investment in properties for redevelopment projects for its governmental activities as of June 30, 2005 amounted to \$355,040,000. This is comprised of 55% land and 45% construction in progress.

Major events during the current fiscal year included the following:

- Construction in progress of \$160,240,000 increased from last year by \$19,110,000. The increase was a result of construction costs incurred on the following projects: \$8,451,000 for California (Fox) Theater, \$6,190,000 for Temporary Convention Center Expansion, \$2,434,000 for Civic Plaza Streetscape, \$852,000 for 4th/San Fernando Street Garage Parking, \$571,000 for Guadalupe River Park and Gardens, and \$612,000 for other public projects.
- Parcels of land were acquired during the year for eventual use for redevelopment projects at a cost of \$7,769,000. Costs of land aggregating to \$32,056,000 were transferred to private developers in accordance with Disposition and Development Agreements.

At June 30, 2005, the Agency had contract commitments of \$8,151,000 for its accumulated redevelopment project costs.

Additional information about the Agency's accumulated redevelopment project costs can be found on pages 48 and 49 of notes to the financial statements.

Capital Assets

For the government-wide financial statement presentation, depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year using the straight-line method. The Agency's capital assets consist of the parking garage (\$10,000,000) located beneath the Fairmont Plaza Hotel in downtown San José with net book value of \$5,625,000 at June 30, 2005 and leasehold improvements of the retail site at Fairmont Plaza Hotel – Annex with a net book value of \$1,206,000. During the year, additional improvements of \$123,000 were incurred on the retail site at Fairmont Plaza Hotel – Annex; fund financial statements record capital asset purchases as

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

expenditures. Additional information about the Agency's capital assets can be found on page 48 of notes to the financial statements.

Debt Administration

On June 30, 2005, the Agency had long-term bonds and notes outstanding aggregating to \$2,147,500,000. Of this amount, \$1,900,375,000 represents bonds backed by tax increment revenues. The remainder of the Agency's debt represents other bonds and notes secured by tax increment and other revenues such as developer payments, interest earnings and other sources. Breakdown is as follows (in thousand):

Merged Area Tax Allocation Bonds (TABs)	\$ 1,504,100
Housing Set-aside bonds	278,675
Merged Area Revenue Bonds	<u>117,600</u>
Sub Total	1,900,375
Convention Center Lease Revenue Bonds	176,850
4th/San Fernando Parking Revenue Bonds	
Pledge Obligation	43,870
CSCDA ERAF Loan	19,085
HUD Section 108 Loans	3,920
City of San José Parking Fund Loan	<u>3,400</u>
Total Debt	<u>\$ 2,147,500</u>

During the year, the Agency issued the following housing bonds:

- Housing Set-aside Tax Allocation Tax Exempt Refunding Bonds Series 2005A for \$10,445,000 and Taxable Refunding Tax Allocation Bonds Series B for \$119,275.
- Housing Set-aside Tax Allocation Tax Exempt Refunding Bonds Series 2005C and Series 2005D for \$33,075,000 and \$33,075,000, respectively.

The ratings on Tax Allocation Bonds (TABs) with bond insurance are "AAA" by the rating agencies - Standard & Poor's, Moody's, and Fitch. Without bond insurance, the ratings are "A-" by Standard & Poor's, "A3" by Moody's, and "A" by Fitch. The Housing Set-Aside Bonds, comprised of various issues, are rated "A" to "AAA" - the highest short term rating from Moody's. The Agency's \$117,600,000 Merged Area Revenue Bonds are rated "A+1" - the highest short term rating from Standard & Poor's. All other bonds are rated "AAA."

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued) June 30, 2005

Additional information about the Agency's long-term obligations can be found on pages 49 to 56 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency Board (City Council) considers many factors when setting redevelopment project priorities and the budget for the ensuing year. Below are significant factors in considering the Agency's budget for the fiscal year 2005-2006:

- 1% increase of total assessed values of property in the redevelopment areas at July 2005.
- Vacancy rate, according to Colliers International, for commercial property in San José as of quarter ending June 30, 2005 was approximately 20%.
- Economic outlook and budget deficit of the State of California, in particular the redevelopment agencies' share in the State's Educational Revenue Augmentation Fund (ERAF). The Agency is expected to contribute approximately \$16 million in the next fiscal year.
- Unemployment rate of 6.0% at July, 2005 in San José, as reported by California Employment Development Department, a decrease from the 7.2% rate at July 2004. This compares unfavorably to the State's unemployment rate of 5.1% and national average rate of 5.2% for the same period.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 200 East Santa Clara St., 14th Floor, San José, CA 95113. Additional financial data may also be found on the Agency's website (www.sjredevelopment.org).

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Cahill Park Neighborhood Housing



Central Place

Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Statement of Net Assets

Governmental Activities

June 30, 2005

ASSETS

Cash and investments (Note II.A)	\$ 129,575,388
Receivables (net):	
Tax increment	251,266
Accrued interest	209,672
Due from the City of San José (Note III.C)	5,641,053
Other	806,203
Advances to the City of San José (Note III.C)	580,362
Loans receivable, net (Note II.B)	33,742,377
Deposits	59,516
Deferred charges, net	19,605,752
Restricted assets:	
Cash and investments (Note II.A)	125,908,724
Accrued interest receivable	92,055
Accumulated redevelopment project costs (Note II.E):	
Land held for redevelopment	194,800,337
Construction in progress	160,239,514
Capital assets, depreciable (Note II.F)	6,831,376
Total assets	<u>678,343,595</u>

LIABILITIES

Accounts payable and accrued liabilities (Note II.G)	8,592,232
Unearned revenue (Note II.C)	1,263,575
Due to the City of San José (Note III.C)	5,879,926
Due to the County of Santa Clara (Note III.D)	11,870,645
Liabilities payable from restricted assets:	
Deposits, retentions and other payables	5,154,263
Accrued interest payable	35,135,964
Noncurrent liabilities (Note II.H)	
Due within one year	46,734,447
Due in more than one year	2,104,071,616
Total liabilities	<u>2,218,702,668</u>

NET ASSETS

Invested in capital assets	6,831,376
Restricted for:	
Debt service	43,733,519
Low and moderate income housing activities	35,297,813
Unrestricted deficit	(1,626,221,781)
Total net assets deficit	<u>\$ (1,540,359,073)</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Statement of Activities

Governmental Activities

For the Year Ended June 30, 2005

	<u>Total</u>	<u>General Government</u>	<u>Community Development</u>	<u>Housing</u>	<u>Debt Service</u>
Expenses:					
Salaries, wages and benefits	\$ 11,818,132	\$ 3,374,207	\$ 8,443,925	\$ -	\$ -
Materials, supplies and other services	8,048,635	5,123,927	2,924,708	-	-
Project expenses	182,878,108	-	122,333,066	60,545,042	-
Depreciation	299,502	-	299,502	-	-
Interest on debt	91,511,560	-	-	-	91,511,560
Total expenses	<u>294,555,937</u>	<u>8,498,134</u>	<u>134,001,201</u>	<u>60,545,042</u>	<u>91,511,560</u>
Program revenues:					
Operating grants and contributions	27,546,566	-	13,018,661	14,527,905	-
Capital grants and contributions	5,749,279	-	5,749,279	-	-
Net program revenue (expense)	<u>(261,260,092)</u>	<u>\$ (8,498,134)</u>	<u>\$ (115,233,261)</u>	<u>\$ (46,017,137)</u>	<u>\$ (91,511,560)</u>
General revenues:					
Tax increment	149,976,478				
Unrestricted investment earnings	6,029,359				
Revenue from the collection of loans	4,435,404				
Miscellaneous	3,505,306				
Total general revenues	<u>163,946,547</u>				
Change in net assets	(97,313,545)				
Net assets deficit, beginning of year	<u>(1,443,045,528)</u>				
Net assets deficit, end of year	<u>\$ (1,540,359,073)</u>				

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Balance Sheet
Governmental Funds
June 30, 2005

	General	Special Revenue	Debt Service		Capital Projects	Total
			Housing	Merged		
ASSETS						
Cash and investments Note II.A)	\$ 1,222,388	\$ -	\$ -	\$ -	\$ 128,353,000	\$ 129,575,388
Receivables:						
Tax increment	-	-	-	-	251,266	251,266
Accrued interest	-	-	-	-	209,672	209,672
Due from other funds (Note II.D)	-	50,253	-	-	4,557,181	4,607,434
Due from the City of San José (Note III.C)	7,602	-	-	-	5,633,451	5,641,053
Others	27,856	-	-	-	778,347	806,203
Advances to the City of San José (Note III.C)	-	-	-	-	580,362	580,362
Loans receivable, net (Note II.B)	-	-	-	-	33,742,377	33,742,377
Deposits	38,716	-	-	-	20,800	59,516
Restricted assets:						
Cash and investments (Note II.A)	-	-	35,809,294	83,333,367	6,766,063	125,908,724
Accrued interest	-	-	2,679	89,376	-	92,055
TOTAL ASSETS	\$ 1,296,562	\$ 50,253	\$ 35,811,973	\$ 83,422,743	\$ 180,892,519	\$ 301,474,050

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable and accrued liabilities (Note II.G)	\$ 829,221	\$ -	\$ 560,492	\$ -	\$ 7,202,519	\$ 8,592,232
Due to other funds (Note II.D)	-	-	-	4,557,181	50,253	4,607,434
Due to the City of San Jose (Note III.C)	203,560	-	-	-	5,676,366	5,879,926
Due to the County of Santa Clara (Note III.D)	-	-	-	-	11,870,645	11,870,645
Deferred revenue (Note II.C)	-	-	-	-	31,437,025	31,437,025
Unearned revenue (Note II.C)	-	-	-	-	1,263,575	1,263,575
Deposits, retentions, and other payables	30,468	-	-	-	5,123,795	5,154,263
Total liabilities	1,063,249	-	560,492	4,557,181	62,624,178	68,805,100
Fund balances:						
Reserved for:						
Long-term receivables	-	-	-	-	3,052,838	3,052,838
Advances and deposits	38,716	-	-	-	601,162	639,878
Debt service	-	-	3,921	78,865,562	-	78,869,483
Low and moderate income housing activities	-	50,253	35,247,560	-	-	35,297,813
Encumbrances	187,292	-	-	-	31,868,618	32,055,910
Unreserved, designated for redevelopment activities	7,305	-	-	-	82,745,723	82,753,028
Total fund balances	233,313	50,253	35,251,481	78,865,562	118,268,341	232,668,950
TOTAL LIABILITIES AND FUND BALANCE:	\$ 1,296,562	\$ 50,253	\$ 35,811,973	\$ 83,422,743	\$ 180,892,519	\$ 301,474,050

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets of Governmental Activities June 30, 2005

Amount reported for governmental activities in the statement of net assets are different because:

Fund balances of all governmental funds (Page 29)	\$	232,668,950
Capital assets used in governmental activities are not spendable current financial resources and, therefore, are not reported in the balance sheet of governmental funds.		6,831,376
Accumulated redevelopment costs are capitalized costs that will be transferred to the City and/or developers upon project completion. These costs are not spendable current financial resources and, therefore, are not reported in the balance sheet of the governmental funds.		355,039,851
Long-term receivables, included in loans receivable, are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis of accounting.		31,437,025
Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. Deferred charges, net of accumulated amortization		19,605,752
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds.		
Tax allocation bonds	(1,782,775,000)	
Revenue bonds	(117,600,000)	
Convention Center refunding revenue bonds	(176,850,000)	
Pledge obligation (4th St./San Fernando Parking Revenue Bonds)	(43,870,000)	
Educational Revenue Augmentation Fund loan	(19,085,000)	
City of San José Parking Fund loan	(3,400,000)	
HUD Section 108 loans	(3,920,000)	
Unamortized premiums on bonds	(18,662,477)	
Unamortized deferred amount on refundings	22,872,870	
Claims liabilities	(6,500,000)	
Compensated absences	(1,016,456)	(2,150,806,063)
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.		(35,135,964)
Net assets deficit of governmental activities (page 27)	\$	(1,540,359,073)

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

	General	Special Revenue		Debt Service		Capital Projects	Total
		Revenue	Housing	Merged	Projects		
REVENUES:							
Tax increment	\$ -	\$ 29,995,295	\$ -	\$ 93,935,686	\$ 26,045,497	\$ 149,976,478	
Intergovernmental	-	-	14,527,905	-	17,748,062	32,275,967	
Investment income	93,277	-	5,333	1,160,601	4,770,148	6,029,359	
Grant revenue	-	-	-	-	1,019,878	1,019,878	
Collection of loans	-	-	-	-	8,722,850	8,722,850	
Rent	851,507	-	-	-	399,775	1,251,282	
Other	332,396	-	-	-	2,242,556	2,574,952	
Total revenues	1,277,180	29,995,295	14,533,238	95,096,287	60,948,766	201,850,766	
EXPENDITURES:							
General government	3,392,793	-	-	-	11,368,633	14,761,426	
Intergovernmental:							
Payments to the City of San José (Note III.C)	5,031,580	29,945,042	30,600,000	-	13,340,620	78,917,242	
Payments to the County of Santa Clara (Note III.D)	-	-	-	-	32,189,767	32,189,767	
Payments to other governmental agencies	-	-	-	-	424,974	424,974	
Debt service:							
Principal repayment	-	-	3,240,000	28,025,000	-	31,265,000	
Interest and other charges	-	-	9,458,645	85,144,340	-	94,602,985	
Payments to refunded bond escrow agent	-	-	2,021,984	-	-	2,021,984	
Bonds issuance costs	-	-	3,518,797	458,046	-	3,976,843	
Capital outlay:							
Project expenditures	-	-	-	-	46,162,619	46,162,619	
Payments to the City of San José (Note III.C)	-	-	-	-	24,753,431	24,753,431	
Total expenditures	8,424,373	29,945,042	48,839,426	113,627,386	128,240,044	329,076,271	
DEFICIENCY OF REVENUES	(7,147,193)	50,253	(34,306,188)	(18,531,099)	(67,291,278)	(127,225,505)	
UNDER EXPENDITURES							
OTHER FINANCING SOURCES (USES):							
Refunding bonds issued	-	-	195,870,000	-	-	195,870,000	
Premium on refunding bonds	-	-	395,104	-	-	395,104	
Bonds and notes issued	-	-	-	-	22,485,000	22,485,000	
Payment to refunded bond escrow agent	-	-	(126,898,747)	-	-	(126,898,747)	
Proceeds from the sale of capital assets	-	-	-	-	4,481,897	4,481,897	
Transfers in (Note II.D)	675,000	-	-	20,967,520	116,367	21,758,887	
Transfers out (Note II.D)	-	-	-	(116,367)	(21,642,520)	(21,758,887)	
Total other financing sources (uses)	675,000	-	69,366,357	20,851,153	5,440,744	96,333,254	
NET CHANGE IN FUND BALANCE	(6,472,193)	50,253	35,060,169	2,320,054	(61,850,534)	(30,892,251)	
FUND BALANCES, BEGINNING OF YEAR	6,705,506	-	191,312	76,545,508	180,118,875	263,561,201	
FUND BALANCES, END OF YEAR	\$ 233,313	\$ 50,253	\$ 35,251,481	\$ 78,865,562	\$ 118,268,341	\$ 232,668,950	

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances of all governmental funds (Page 31) \$ (30,892,251)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is either allocated over their estimated useful lives and reported as depreciation expense or accumulated as redevelopment project costs and transferred to the City and/or developers upon project completion. The components of capital outlay related costs not reported in the statement of activities for the current period are as follows:

Costs capitalized related to accumulated redevelopment projects costs	\$ 26,878,954	
Costs capitalized related to acquisition of leasehold improvements	122,900	
Disposal of capitalized costs related to transfer of capital assets	(32,055,805)	
Depreciation expense	<u>(299,502)</u>	(5,353,453)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. For governmental funds, loans made that are not expected to be repaid in the near future are offset with deferred revenue, whereas, loans made are considered project expenditures and loans collected are considered current year revenue. However, on the statement of activities only interest earnings and bad debt expense are reported.

Revenues earned but not available in the current year	75,000	
Revenues collected that were earned in prior years	(395,928)	
Loans collected during the year	(4,287,446)	
Loans made during the year	11,721,890	
Loans written off as bad debt expense during the year	<u>(9,347,457)</u>	(2,233,941)

Some expenses such as claims and judgments or compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (6,573,761)

Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities:

Bond issuance costs	3,976,843	
Amortization of bond issuance costs	<u>(764,034)</u>	3,212,809

Repayment of long-term debt principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. The Agency's long-term debt was reduced because principal payments were made to bond holders and HUD:

Tax allocation bonds	23,845,000	
Convention Center refunding revenue bonds	4,540,000	
Revenue bonds	1,400,000	
Pledge obligation (4th St./San Fernando Parking Revenue Bonds)	1,275,000	
HUD Section 108 loans	205,000	
Payment to refunded bond escrow agent	<u>128,920,731</u>	160,185,731

(Continued on next page)

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities
For the Year Ended June 30, 2005

(Continued from previous page)

Accrued interest expense on long-term debt is reported in the statement of activities, but does not require the use of current financial resources.

Amortization of bond premiums, discounts and deferred amounts on refunding is expensed as a component of interest expense on the statement of activities. This amount represents the net accrued interest expense and the amortization of bond premiums, discounts and deferred amounts on refunding not reported in governmental funds:

Decrease in accrued interest expense	\$	3,560,185	
Amortization of bond premiums and discounts		1,165,344	
Amortization of deferred amounts on refunding		<u>(1,634,104)</u>	\$ 3,091,425

Proceeds from borrowing are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

Proceeds were received from:

The issuance of refunding bonds, including the issuance premium	(196,265,104)	
The borrowing through loan programs	<u>(22,485,000)</u>	<u>(218,750,104)</u>

Change in net assets of governmental activities (page 28

\$ (97,313,545)

See accompanying notes to the basic financial statements.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements
June 30, 2005**

The Notes to the Financial Statements include a summary of significant accounting policies and all other disclosures considered necessary for an adequate understanding of the Agency's basic financial statements. For easy navigation, an index of the Notes is shown below:

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**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency of the City of San José (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Agency are described below:

A. Reporting Entity

The Agency was established in 1956 by the San José City Council as a public entity legally separate from the City of San José (the City). In 1975, the City Council declared itself the Agency Board, replacing a separate board. The Agency has the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Area.” Redevelopment projects may be developed in cooperation with private developers. Redevelopment projects are also developed under cooperation agreements between the Agency and the City. The cooperation agreements call for the City to provide general, administrative, and other services in exchange for amounts paid by the Agency.

The Agency generally finances redevelopment projects through the issuance of tax allocation bonds. These bonds are payable from the incremental portion of property taxes collected within a project area relating to the increase in assessed valuation resulting from redevelopment. The County of Santa Clara (the County) collects these incremental tax revenues on behalf of the Agency. The Agency has a tax sharing agreement with the County that requires sharing of incremental tax revenues with the County.

The Agency has merged all of its redevelopment areas into a single “Merged Project Area” in order to combine tax increment revenues to obtain greater financing power through issuance of tax allocation bonds.

Under GASB Statement No. 14, *The Financial Reporting Entity*, the Agency is considered a component unit of the City since the Agency Board consists exclusively of the Mayor and the ten members of the City Council. Consequently, the Agency’s financial statements are blended in the City’s basic financial statements.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property tax increment, grants, and donations. On an accrual basis, revenue from property tax increment is recognized in the fiscal year for which the taxes are levied.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

Other revenues such as grants and similar items are recognized in the fiscal year in which all eligibility requirements have been satisfied. When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources related to grants are depleted.

The statement of net assets and statement of activities display information about the Agency as a whole and, accordingly, eliminations have been made to remove interfund activities.

The statement of activities presents a comparison of direct expenses and program revenues for activities of the Agency. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular program or function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including property tax increment, are presented instead as general revenues.

Fund Financial Statements

The accounts of the Agency are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. The primary revenue sources susceptible to accrual are property tax increment, intergovernmental and grant revenues, investment income, developer contributions, and rent. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

The Agency reports the following major governmental funds:

- The *General Fund* is used to account for the Agency's general and administrative expenditures.
- The *Special Revenue Fund* is used to account for revenue sources that are legally restricted to expenditures for specified purposes. The purpose of this fund is to account for that portion of tax increment revenue required to be used towards low and moderate-income housing.
- The *Housing Debt Service Fund* was established to account for the payment of interest and principal on the Agency's merged area housing tax allocation bonds. The primary source of revenue for this fund is intergovernmental revenue from the City of San José Housing Department representing tax increment pledged per housing bond indentures.
- The *Merged Debt Service Fund* was established to account for the payment of interest and principal on the Agency's merged area tax allocation bonds, revenue bonds, refunding revenue bonds, and other loans. The primary source of revenue for this fund is the incremental property tax revenues.
- The *Capital Projects Fund* accounts for all revenues and costs of implementing the redevelopment projects in accordance with the California Redevelopment Law including acquisition of properties, cost of site improvements, and other costs that benefit the projects.

C. Assets, Liabilities, Equity and Operations

1. Investments

The Agency records investment transactions on the trade date. Investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount that the Agency could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices. Investment income, including unrealized gains and losses, is recognized as revenue in both government-wide and fund financial statements.

2. Property Tax Increment Revenues

Incremental property tax revenues represent taxes collected in the merged redevelopment project area from the excess of taxes levied and collected over that amount which was levied and collected in the base year (the inception year of redevelopment project areas) property tax assessment along with a provision for inflation.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

Under California Proposition 13, the 1975-1976 regular roll value serves as the original base value of the property. Thereafter, changes to the assessment on real property value or a portion thereof, caused by new construction or changes in ownership create the base year value used in establishing the full cash value. The full cash value is the amount of cash or equivalent value of property if exposed for sale in the open market. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property values caused by damage, destruction or other factors, including a general economic downturn. The maximum basic property tax rate is 1% of the net taxable value of the property. The total tax rate may be higher for various properties because of voter-approved general obligation bonds that are secured by property taxes for the annual payment of principal and interest.

The County of Santa Clara assesses properties, bills, and collects property taxes, as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	October 1	July 1
Due dates (delinquent after)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

Taxes are secured by liens on the property being taxed. The term “unsecured” refers to taxes on property other than land and buildings. Supplemental property taxes are levied based on changes in assessed values between the date of real property sales and construction and the next normal assessment date.

The County bills and collects property taxes and remits to the Agency its share of the amount levied. The County allocates property taxes to the Agency based on 100% of the tax levy, notwithstanding any delinquencies. Revenue is recognized when it is levied and received from the County, as discussed under section of Basis of Accounting.

3. Restricted Assets

Assets that are restricted for specified uses by bonded debt requirements, grant provisions or other requirements are classified as restricted because they are maintained in separate bank accounts or by fiscal agents, and their use is limited by applicable bond covenants or agreements. Liabilities payable from such restricted assets are separately classified on the statement of net assets.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

4. Accumulated Redevelopment Project Costs

Accumulated redevelopment project costs consist of costs associated with land acquisition and construction in progress for redevelopment projects that will be transferred to the City or a developer (i.e. title and ownership of the assets will be given to the City or a developer) in accordance with development agreements. Because these assets will not be used in the Agency's operations, the accumulated redevelopment project costs are not considered capital assets.

5. Capital Assets

The Agency defines capital assets as assets used in redevelopment operations 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 the parking garage located beneath the Fairmont Plaza Hotel and certain leasehold improvements to the Fairmont Annex retail space. The capital assets are recorded in the government-wide financial statements at historical cost and are being depreciated using the straight-line method over a 40-year and a 25-year estimated useful life, respectively.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities, or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the statement of activities. However, the proceeds from the sale of capital assets are recorded as other financing sources in the governmental fund statement of revenues, expenditures and changes in fund balances.

6. Compensated Absences (Accrued Vacation and Sick Leave)

As part of the employees' compensation package, the Agency provides benefits to its employees by establishing a Paid Time Off (PTO) and Extended Sick Leave (ESL) benefit program. Under this program, employees are permitted to accumulate earned PTO and ESL benefits and to carry over up to 400 unused PTO hours to the following fiscal year. Vested or accumulated PTO and ESL are reported as a long-term liability on the statement of net assets and are paid out of the General Fund. All regular employees scheduled to work 20 hours or more per week are entitled to the PTO and ESL benefits. The amount of PTO earned each year is based on employees' continuous length of service, measured from the date of employment. The maximum PTO annual accrual per employee may not exceed 400 hours at the end of the fiscal year. ESL hours are credited at the rate of 40 hours per fiscal year for all regular employees regardless of length of service. Upon termination, payouts of PTO and ESL are calculated as earned on a bi-weekly accrual schedule. Earned and unused PTO is paid in full while only 25% of earned but unused ESL is paid out.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

7. Issuance Costs, Original Issue Discounts, Premiums, and Refundings

In the government-wide financial statements, activity associated with the issuance of bonds and other debt are reported as assets and liabilities in the statement of net assets. Issuance costs, premiums, discounts, and gains or losses occurring from refundings are deferred and amortized over the life of the bonds and other debt. Issuance costs are reported as deferred charges and are amortized into the appropriate functional expense category. Long-term debt is reported net of the applicable premiums, discounts, and deferred amounts on refunding and are amortized as a component of interest expense.

In the fund financial statements, bond issuance costs, premiums, and discounts are recognized at the time bonds are issued. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures and all other amounts are reported as other financing sources or uses.

8. Interfund Transactions

Interfund transactions are reflected either as loans, services provided, reimbursements or transfers in the government fund financial statements. Loans between funds are reported as receivables and payables as appropriate and are subject to elimination upon consolidation and are referred to as "due to/from other funds".

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are recorded when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide presentation.

9. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

10. Change in Classifications and Disclosures

During the year, the Agency changed its method of classifying direct labor and non-personnel costs associated with capital projects and programs. Previously, all general government expenditures, which consists mainly of personnel costs and materials, services, and supplies associated with carrying out the functions of the Agency, were reported solely in the General Fund. During the year, management of the Agency decided to reclassify certain general government expenditures related to the Capital Projects Fund in order to reflect the true costs of capital projects and programs. For fiscal year 2004-05, personnel and non-personnel costs

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

relating to capital projects and programs of \$11,368,633 were recorded directly to the Capital Projects Fund as general government expenditures.

In fiscal year 2004-05, the Agency adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. The Statement modifies the custodial credit risk disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The disclosure changes related to implementing this pronouncement are reflected in Note II.A.

II. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The Agency's cash and investments consist of the following at June 30, 2005:

Cash and investments (unrestricted)	\$ 129,575,388
Restricted cash and investments	<u>125,908,724</u>
Total cash and investments	<u><u>\$ 255,484,112</u></u>

Investments

The Agency has adopted the investment policy of the City, which is governed by provisions of the California Government Code and the City's Municipal Code. The Agency also has investments subject to provisions of the bond indentures of its various bond issues. According to the investment policy and bond indentures, the Agency is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (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.

The Agency maintains all of its unrestricted investments in the City's cash and investment pool. It is not possible to disclose relevant information about the Agency's separate portion of the cash and investment pool, as there are no specific investments belonging to the Agency itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2005 basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department Web Site at <http://www.csjfinance.org/>. As of June 30, 2005, the Agency's share of the City's cash and investment pool totaled \$129,553,449 and \$209,672 in accrued interest.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

Income earned or losses arising from investments in the City's cash and investment pool are allocated on a monthly basis to the appropriate funds based on the average weekly cash balance of such funds.

In relation to the reserve account for the 2003 Merged Tax Allocation Bonds, the Agency has invested \$12,373,378 with LAIF as of June 30, 2005. The Agency's proportionate share of structured notes and asset-backed securities as of that date is \$297,707 or 2.41%. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members, as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn upon request, is determined on an amortized cost basis, which is different from the fair value of the Agency's position in the pool.

Custodial Credit Risk

The Agency's investment policy states that uninsured deposits shall be collateralized in the manner prescribed by State law. The amounts placed on deposit with banks were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent in the Agency's name. Accordingly, the exposure to custodial credit risk is low as of and for the year ended June 30, 2005.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. The Agency's investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification. These limits, for investments other than the external investment pools and money market mutual funds which have a maturity of one day, are as few as 10 days and as long as 5 years.

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 Agency'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.

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 Agency. The Agency's investment with the City's Cash and Investment Pool mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5 percent of the total portfolio other than securities issued by the U.S. government and its affiliated agencies. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. The repurchase agreement of \$70,646,626 represents an investment made by fiscal agent (Union Bank) with Bank of the West. The repurchase agreement is backed by Federal

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

National Mortgage Association and is held by fiscal agent to pay debt service when due, in accordance with bond indentures.

A summary of the Agency's investments at June 30, 2005 is as follows:

Type of Investment	Fair Value	Credit Risk	Weighted Average Maturity
City of San José cash and investment pool	\$ 129,553,449	Unrated	417 days
State Local Agency Investment Fund	12,373,378	Unrated	165 days
Money market mutual funds	36,122,657	Aaa / AAAM	8 days
Repurchase agreement	<u>70,646,626</u>	Aaa / AAA	23 days
Total investments	248,696,110		
Petty cash	2,600		
Deposits with banks	19,339		
Certificates of deposits (escrow accounts)	<u>6,766,063</u>		
Total cash and investments	<u><u>255,484,112</u></u>		

Restricted Investments in the Debt Service Funds

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and amounts to be held for the withdrawal of qualified reimbursements. These accounts are reported in debt service funds. As of June 30, 2005, the amounts held by the trustees aggregated \$119,142,661, of which \$35,247,560 is available for withdrawal and \$83,895,101 is in compliance with amounts required to be held by the trustee at that date. All restricted investments held by trustees as of June 30, 2005 were invested in a repurchase agreement, money market mutual funds and LAIF, and were in compliance with the bond indentures. Pursuant to the 1993 bond indenture, \$4,557,181 has been determined by the trustee to be released from restriction and was remitted back to the Agency during July of 2005.

Restricted Deposits in the Capital Projects Fund

Pursuant to contracts and agreements made by the Agency, certain funds are required to be held in escrow accounts that remain the property of the Agency; however, their use is restricted for a particular purpose, which as of June 30, 2005 are as follows:

Project/Program	Amount
California Theatre	\$ 2,851,979
HUD Section 108 funds (EU Building)	1,594,104
Paseo Villas Housing	715,047
Miscellaneous Redevelopment Projects	<u>1,604,933</u>
Total restricted deposits	<u><u>\$ 6,766,063</u></u>

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

B. Loans Receivable

Composition of loans receivable as of June 30, 2005 is as follows:

	Description	Loan Balance
1	Parcels of land sold to developers	\$ 10,585,610
2	HUD Section 108 loan	3,052,838
3	Grocery store improvement	1,660,677
4	Rehabilitation of apartment complex	717,610
5	Relocation of historic homes	3,171,054
6	Rehabilitation of residential units	344,552
7	Rehabilitation of commercial buildings	5,222,684
8	Downtown building improvements	3,435,993
9	Residential housing	3,780,000
10	Rehabilitation of historic hotel building	5,265,000
11	Rehabilitation of commercial retail complex	1,411,690
	Total loans receivable	38,647,708
	Less allowance for doubtful accounts	(4,905,331)
	Loans receivable, net	\$ 33,742,377

1. Over the years, parcels of land have been sold to commercial real estate developers in exchange for various interest bearing loans. Such loans have terms ranging from 16 to 40 years, with interest rates ranging from 2% to 10%, after interest free periods of up to 10 years, and call for principal and interest payments monthly or annually over the remaining life of the loans. The recognition of revenue from the sale of the land has been deferred in the governmental fund financial statements on such loans until they are repaid since the amounts do not meet the availability criteria. As of June 30, 2005, the amount due from developers was \$10,585,610.

2. In 1997, 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 Agency on a monthly basis. As of June 30, 2005, the amount due from the developers was \$3,052,838.

3. In June 2005, a developer assigned its loan of \$1,660,677 with the Agency to a new entity by assuming all the rights, title, interest and obligations as borrower. The loan was restructured, has a 7-year term bearing interest at an annual rate of 4%, and requires principal and interest payments to the Agency on an annual basis. The loan agreement stipulated that on each consecutive anniversary of the opening date of the business, the new borrower shall deem to have been paid one-seventh of the original loan including interests if it continues its grocery business operations in the premise. Because of this arrangement and anticipation that the new borrower will continue its business operations in the premise, a 100% provision for doubtful accounts was provided for the entire loan.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

4. In 1999, the Agency extended a loan to a developer for rehabilitation of an apartment complex. The loan to the developer has a 19-year repayment schedule, bears interest at an annual rate of 3%, and requires principal and interest payments to the Agency on a monthly basis. As of June 30, 2005, the amount due from the developer was \$717,610.

5. The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were provided to families and a non-profit agency, which provided the interior and exterior improvements. The loans are to be paid only in the event of non-compliance with the terms and conditions of the agreement. 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 \$3,171,054 have been offset with a 100% provision for doubtful accounts as it is anticipated that these loans will be forgiven.

6. 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. As of June 30, 2005, the amount due from such loans was approximately \$344,552. An allowance for doubtful accounts in the amount of \$73,600 was made for anticipated write-offs.

7. Rehabilitation loans were extended to property owners for the rehabilitation and improvements of commercial buildings. The loans accrue interest at various interest rates and are due within 60 to 240 months. At June 30, 2005, the total amount due from such loans was \$5,222,684.

8. In 2004, commercial loans were extended to two developers for improvements of downtown buildings. The loans accrue interest at 3% and are due in 10 and 20 years, respectively. At June 30, 2005, the amount due from such loans was \$3,435,993.

9. In 1989, the Agency entered into a disposition and development agreement with a developer for the construction of residential housing units in the redevelopment project area. The funding assistance extended by the Agency is being converted to a loan bearing an interest rate of 4% per annum. As of June 30, 2005, the amount due from the developer was \$3,780,000.

10. 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 to the Agency on a semi-annual basis. As of June 30, 2005, the amount due from the developer was \$5,265,000.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

11. In November 2004, the Agency extended a loan to a developer for rehabilitation of a commercial retail complex. The loan to the developer has a due date of December 31, 2007 and accrues monthly interest at a rate equal to LIBOR plus 195 basis points. As of June 30, 2005, the amount due from the developer was \$1,411,690.

C. Deferred Revenue

At June 30, 2005, the various components of deferred revenue reported in the Capital Projects Fund and governmental activities were as follows:

	Amount
Amounts considered unavailable:	
Related to loans receivable	\$ 30,689,539
Related to accounts receivable	747,486
Amounts considered unearned related to developer contributions	1,263,575
Total deferred revenue, as reported in the fund financial statements	\$ 32,700,600

D. Interfund Balances and Transactions

The composition of borrowing between funds for the fiscal year ended June 30, 2005 is as follows:

Due from Other Funds	Due to Other Funds	Amount
Capital Projects Fund	Merged Debt Service Fund	\$ 4,557,181
Special Revenue Fund	Capital Projects Fund	50,253
Total		\$ 4,607,434

As listed in the table above, the \$4,557,181 amount represents a return of funds to the Agency pursuant to the 1993 bond indenture, which states that the trustee must release certain funds from restriction and remitted those funds directly to the Agency; and the \$50,253 amount represents 20% of the property tax increment receivable as of June 30, 2005. The amounts due from the trustee and from the County of Santa Clara were received during July 2005 and the interfund borrowings were repaid immediately thereafter.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

The composition of interfund transfers for the fiscal year ended June 30, 2005 is as follows:

Transfer-in Fund	Transfer-out Fund	Amount
Merged Debt Service Fund	Capital Projects Fund	\$ 20,967,520
General Fund	Capital Projects Fund	675,000
Capital Projects Fund	Merged Debt Service Fund	116,367
Total		<u>\$ 21,758,887</u>

As listed in the table above, the \$20,967,520 amount represents transfers necessary to make required debt service payments; the \$675,000 amount represents a transfer of funds necessary to cover the general and administrative expenditures of the Agency; and the \$116,367 amount represents transfers from debt service for the release of unused cost of bond issues and bond reserved account.

E. Accumulated Redevelopment Project Costs

For the fiscal year ended June 30, 2005, the change in accumulated redevelopment project costs consisted of the following:

	July 1, 2004	Additions	Disposals	June 30, 2005
Land held for redevelopment	\$ 219,087,017	\$ 7,769,125	\$ (32,055,805)	\$ 194,800,337
Construction in progress	141,129,685	19,109,829	-	160,239,514
Total	<u>\$ 360,216,702</u>	<u>\$ 26,878,954</u>	<u>\$ (32,055,805)</u>	<u>\$ 355,039,851</u>

During the year, \$32,055,805 of land costs was transferred to developers in accordance with Disposition and Development Agreements. This comprised of property located at Story/King Road with a cost of \$29,978,000 and Park Avenue property with a cost of \$1,641,000.

Construction in progress as of June 30, 2005 consisted of the following (in thousands):

California Theatre	\$ 71,378
Dr. Martin Luther King, Jr. Library	62,720
Jose Theatre	7,156
Convention Center Expansion	6,190
Civic Plaza Streetscape	3,583
Bellevue Park	2,493
Other projects	6,720
Total construction in progress	<u>\$ 160,240</u>

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

F. Capital Assets

A summary of changes in the Agency's capital assets for the fiscal year ended June 30, 2005 is as follows (in thousands):

	July 1, 2004	Additions	June 30, 2005
Parking structure	\$ 10,000,000	\$ -	\$ 10,000,000
Leasehold improvements	1,156,100	122,900	1,279,000
Accumulated depreciation	(4,148,122)	(299,502)	(4,447,624)
Total	<u>\$ 7,007,978</u>	<u>\$ (176,602)</u>	<u>\$ 6,831,376</u>

The capital assets consist of the parking garage located beneath the Fairmont Plaza Hotel, which was constructed in 1987, and certain improvements to the Fairmont Annex retail space. Depreciation attributable to these capital assets is charged to the Community Development functional expense in the statement of activities.

G. Accounts Payable and Accrued Liabilities

Agency accounts payable and accrued liabilities at June 30, 2005 are as follows:

	General Fund	Debt Service Fund - Housing	Capital Projects Fund	Total
Accounts payable	\$ 520,786	\$ 560,492	\$ 7,202,519	\$ 8,283,797
Accrued salaries and benefits	308,435	-	-	308,435
Total	<u>\$ 829,221</u>	<u>\$ 560,492</u>	<u>\$ 7,202,519</u>	<u>\$ 8,592,232</u>

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

H. Debt

Long-term Debt

The following is a summary of bonds and loans payable of the Agency as of June 30, 2005 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Range Interest Rate	Annual Principal Installments	Outstanding at June 30, 2005
Tax Allocation Bonds:							
1993 Merged Area Refunding	Advanced refunding	\$692,075	12/1/1993	8/1/2024	4.75-6.00%	\$15,560-117,320	\$ 317,330
1997 Merged	Merged Area projects	106,000	3/27/1997	8/1/2028	5.38-5.63%	\$2,660-24,135	83,255
1998 Merged	Merged Area projects	175,000	3/19/1998	8/1/2029	5.00-5.25%	\$1,275-72,905	168,320
1999 Merged	Merged Area projects	240,000	1/6/1999	8/1/2031	4.75-5.00%	\$4,100-55,310	222,115
2002 Merged	Merged Area projects	350,000	1/24/2002	8/1/2032	3.00-5.00%	\$7,300-75,030	302,085
2003 Merged	Merged Area projects	135,000	12/22/2003	8/1/2033	3.00-5.00%	\$25 – 46,950	129,010
2004 A Merged Refunding	Refund portion of Merged Bonds	281,985	5/27/2004	8/1/2019	2.00- 5.25%	\$250 – 31,900	281,985
1997 Housing Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75-5.85%	\$2,420-14,625	17,045
2003 Housing Series J/K	Low-moderate income housing	69,000	7/10/2003	8/1/2029	2.00- 5.25%	\$3,300-16,370	65,760
2005 Housing Series A/B	Low-moderate income housing	129,720	6/30/2005	8/1/2035	3.75-5.46%	\$970-57,755	129,720
2005 Housing Series C/D	Low-moderate income housing	66,150	6/30/2005	8/1/2035	Variable	\$830-1,380	66,150
	Total Tax Allocation Bonds						<u>1,782,775</u>
Other Long-term Debt:							
1996 Merged Area Revenue, Series A/B	Merged area projects	59,000	6/27/1996	7/1/2026	Variable	\$1,400-3,400	57,600
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	\$500 – 3,900	60,000
Pledge obligation - 4th/San Fernando Parking Revenue Bonds	4th/San Fernando parking facility project	48,675	4/10/2001	9/1/2026	3.80-5.25%	\$1,275-8,310	43,870
2001 Convention Center Refunding Bonds Series F	Convention Center refunding project	190,730	7/1/2001	9/1/2022	4.00-5.00%	\$5,050-14,730	176,850
CSCDA ERAF Loan	State ERAF program	19,085	4/27/2005	8/1/2015	3.87-5.01%	\$1,908	19,085
City of San Jose Parking Fund Loan	Merged area projects	3,400	4/12/2005	1/31/2009	Variable	-	3,400
HUD Section 108 Loans	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	Various	3,920
	Total Other Long-term Debt						<u>364,725</u>
	Total Long-term Debt						<u>\$ 2,147,500</u>

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

A summary of the changes in long-term debt during the fiscal year ended June 30, 2005 follows (in thousands):

	Balance July 1, 2004	Additions	Payments/ Refundings	Balance June 30, 2005	Amount Due in One Year
Tax allocation bonds:					
1993 Merged Area Refunding	\$ 323,175	\$ -	\$ (5,845)	\$ 317,330	\$ -
1993 Housing, Series D	10,525	-	(10,525)	-	-
1997 Housing, Series E	17,045	-	-	17,045	2,660
2000 Housing, Series F	44,205	-	(44,205)	-	-
2002 Housing, Series G & H	70,000	-	(70,000)	-	-
2003 Housing, Series J & K	69,000	-	(3,240)	65,760	3,300
2005 Housing, Series A & B	-	129,720	-	129,720	-
2005 Housing, Series C & D	-	66,150	-	66,150	-
1997 Merged	85,780	-	(2,525)	83,255	-
1998 Merged	169,545	-	(1,225)	168,320	1,275
1999 Merged	225,985	-	(3,870)	222,115	4,100
2002 Merged	309,225	-	(7,140)	302,085	7,300
2003 Merged	129,010	-	-	129,010	730
2004 A Merged Refunding	281,985	-	-	281,985	12,895
Total tax allocation bonds	<u>1,735,480</u>	<u>195,870</u>	<u>(148,575)</u>	<u>1,782,775</u>	<u>32,260</u>
Other long-term debt:					
1996 Merged Area Revenue, Series A/B	59,000	-	(1,400)	57,600	1,400
2003 Merged Area Revenue, Series A/B	60,000	-	-	60,000	-
Pledge obligation – 4th/San Fernando parking revenue bonds	45,145	-	(1,275)	43,870	1,325
2001 Convention Center Refunding Bonds, Series F	181,390	-	(4,540)	176,850	5,050
CSDA ERAF Loan	-	19,085	-	19,085	-
City of San Jose Parking Fund Loan	-	3,400	-	3,400	-
HUD Section 108 loans, variable rate loans	4,125	-	(205)	3,920	215
Total other long-term debt	<u>349,660</u>	<u>22,485</u>	<u>(7,420)</u>	<u>364,725</u>	<u>7,990</u>
Total long-term debt, before premiums, discounts and deferred amount on refunding	2,085,140	218,355	(155,995)	2,147,500	40,250
Unamortized issuance premium	19,439	395	(1,171)	18,663	1,192
Unamortized issuance discount	(176)	-	176	-	-
Unamortized deferred amount on refunding	(20,021)	(4,486)	1,634	(22,873)	(1,818)
Total long-term debt payable	<u>2,084,382</u>	<u>214,264</u>	<u>(155,356)</u>	<u>2,143,290</u>	<u>39,624</u>
Claims liabilities	-	6,500	-	6,500	6,500
Compensated absences	943	757	(684)	1,016	610
Total long-term obligations	<u>\$ 2,085,325</u>	<u>\$ 221,521</u>	<u>\$ (156,040)</u>	<u>\$ 2,150,806</u>	<u>\$ 46,734</u>

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

The Merged Tax Allocation Bonds are senior debt and are repaid with the tax increment. The Housing Bonds are repaid with the Housing Set-Aside Amounts. The Merged Revenue Bonds are repaid with subordinated revenues. The remaining long-term debt is repaid with other revenues.

2005 Housing Bonds, Series A, B, C and D

On June 30, 2005, the Redevelopment Agency issued \$10,445,000 of Series 2005A, \$119,275,000 of Series 2005B (Taxable), \$33,075,000 of Series 2005C (AMT) and \$33,075,000 of Series 2005D (AMT) housing set-aside tax allocation bonds. The proceeds of the Series 2005A bonds were used to refund the Agency's Series 1993D housing set-aside tax allocation bonds. The proceeds of the Series 2005B bonds were used to advance refund all of the Agency's Series 2000F housing set-aside tax allocation bonds and refund a portion of the Agency's Series 2002G and Series 2002H housing set-aside tax allocation bonds. Proceeds of the Series 2005C and Series 2005D bonds were used to refund the remaining portion of the Agency's Series 2002G and Series 2002H bonds and to finance and refinance affordable housing projects. Debt service will be payable from the 20% portion of Agency tax increment revenues set aside for affordable housing.

The Series 2005A bonds, which are insured by FGIC, bear interest at tax-exempt fixed rates ranging from 3.75% to 5.00%, and have a final maturity date of August 1, 2024. The Series 2005B bonds, which are also insured by FGIC, bear interest at taxable fixed rates ranging from 3.89% to 5.46%, and have a final maturity date of August 1, 2035. The Series 2005C and Series 2005D bonds, which are supported by a Bank of New York direct-pay letter of credit, bear interest at tax-exempt (AMT) weekly variable rates, and have a final maturity date of August 1, 2035.

A refunding escrow for the Series 1993D Bonds, in the amount of \$10,905,342, was funded from a combination of Series 2005A Bonds net proceeds and cash remaining in the debt service funds of the series 1993D bonds. A refunding escrow for the Series 2000F Bonds, in the amount of \$48,015,389, was funded from a combination of Series 2005B Bonds net proceeds and cash remaining on the debt service funds of Series 2000F Bonds. The refunding escrows, deposited into an irrevocable trust with an escrow agent, provided for the principal, call premium and accrued interest through the dates of redemptions for the Series 1993D and Series 2000F Bonds. The Series 1993D Bonds were redeemed on August 1, 2005 and the Series 2000F Bonds are considered and will be redeemed on August 1, 2006. Both series of bonds have been removed from the Agency's basic financial statements.

These refundings achieved savings in the following amounts:

	Series 1993D	Series 2000F
Aggregate debt service savings	\$2,054,468	\$16,609,793
Economic gain, net present value (NPV)	\$1,409,867	\$8,994,208
NPV Savings as a % of Refunded Principal	13.40%	20.35%

Simultaneously with the issuance of the 2005 Housing Bonds, the fiscal agent for the Series 2002G and Series 2002H Bonds drew on the letter of credit in effect with respect to those bonds in the amount necessary to redeem them in full. Proceeds of the Series 2005B, Series 2005C and Series

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

2005D Bonds were applied to reimburse the letter of credit provider for the draws used to redeem the Series 2002G and Series 2002H Bonds. The Series 2002G and Series 2002H Bonds were redeemed on June 30, 2005, and have been removed from the Agency's basic financial statements.

The redemption of the Series 2002G bonds and Series 2002H bonds, both of which were taxable and paid interest at weekly variable rates, with proceeds of the taxable fixed rate Series 2005B bonds and tax-exempt (AMT) variable rate Series 2005C and Series 2005D bonds, allowed the Agency to achieve a more economic allocation of variable and fixed rate debt and to refund a portion of its taxable debt on a tax-exempt basis.

California Statewide Communities Development Authority (CSCDA) Educational Revenue Augmentation Fund (ERAF) Loan

As part of its actions to address the State's fiscal crisis, the State of California enacted a budget requiring local governments to give up a grand total of \$1.3 billion in local funds for each of the next two fiscal years. The Agency's share, \$18,626,954 for FY 2004-05, was paid into the Educational Revenue Augmentation Fund (ERAF) and is frequently referred as the ERAF payment. The Agency was required to make the payment to the County of Santa Clara on or before May 10, 2005. The Agency, as a participant of the California Statewide Communities Development Authority (CSCDA) decided to join the California Redevelopment Association/Educational Revenue Augmentation Fund (CRA/ERAF) Loan Program, proceeds of which would be used to make the required ERAF payment. On April 27, 2005, a grand total for the bond issued was \$27,020,000 by the CSCDA and the Agency's share of the bond was \$19,085,000. The loan with CSCDA is scheduled to be repaid over a 10-year period and bear fixed interest rate from 3.87% to 5.01%. The final maturity date for the loan is August 1, 2015.

City of San Jose Parking Fund Loan

On April 12, 2005, the Agency entered into a loan agreement with the City of San Jose in an amount of \$6,800,000 from the future facilities reserve within the City's General Purpose Parking Fund. The loan from the City to the Agency constitutes indebtedness under the California Redevelopment Law. The Loan will be received by the Agency from the City in 2 installments: \$3,400,000 on April 15, 2005 and \$3,400,000 on February 1, 2006. The Agency is allowed to use the Loan proceeds for any programs or projects contained in the Agency's Adopted FY 2004-05 Capital and Operating Budgets and the FY 2004-05, FY 2005-06 Two Year Spending Plan, as may be amended from time to time. Interest on the loaned amounts shall accrue monthly on a compounded basis based on the City's investment Portfolio No.1's rate of return. The final maturity date of the loan, along with accrued interest, shall be repaid to the City on or before January 31, 2009.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

Convention Center Refunding

In July 2001, the City of San José Financing Authority (the Authority) - a Joint Powers Authority authorized pursuant to a Joint Exercise of Powers Agreement between the City and the Agency to borrow money for the purpose of financing the acquisition and construction of assets of the City and the Agency, of which a portion of the debt issued by the Authority is reflected as debt of the Agency - 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 (1993 Bonds). The net proceeds were placed in an irrevocable trust to provide future debt service payment on the refunded bonds. As a result, the 1993 bonds were considered defeased and the liabilities have been removed from the financial statements. As of June 30, 2005, there were no defeased bonds 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 tax increment to reimburse the City for lease payments made to the Authority for the project. The Series 2001F bonds (non-taxable) mature in 2022 and the Series 2001G bonds (taxable) matured in 2002. Series G bonds were paid entirely in 2002 and the Series F bonds has an outstanding balance of \$176,850,000 as of June 30, 2005.

4th and San Fernando Streets Parking Facility

In March 2001, the City of San José Financing Authority (the Authority) issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the 4th & San Fernando Parking Facility Project. The Agency entered into the *Agency Pledge Agreement* with the Authority, whereby Agency payments are payable from and secured by surplus Agency Revenues. Agency payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the garage. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution or indenture pursuant to which the outstanding tax allocation bonds were issued, plus (ii) all legally available revenues of the Agency. As of June 30, 2005, the Agency has outstanding obligation, per Agency Pledge Agreement, of \$43,870,000.

HUD Section 108 Loans

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. Approximately \$1,594,000 for principal and interest reserves is included in the Capital Projects Fund as restricted cash and investments. The proceeds are used to finance certain projects in the Merged Project Area. At June 30, 2005, the Agency has outstanding loans due of approximately \$3,920,000. The notes payable to HUD mature annually through August 2016 and bear interest at 20 basis points above the LIBOR index.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest, except the 1996 Series A and B Bonds, 2003 Series A and B Bonds, 2005 Series C and D, and the HUD Section 108 loans, which bear interest at variable rates. Interest on the 1996 Series A and B Bonds, 2003 Series A and B Bonds, and the 2005 Series C and D Bonds may be set at different interest rate calculation modes, including daily, monthly and fixed rates. On June 30, 2005, all the variable rate bonds were set in weekly modes. Interest on the HUD Section 108 loan is adjusted monthly on the first day of each month to a variable interest rate equal to 20 basis points above the applicable LIBOR rate.

For purposes of calculating the annual debt service requirements as of June 30, 2005, the following assumed effective rates have been used:

<u>Bond Issues</u>	<u>Effective Rate</u>
1996 Merged Area Revenue, Series A	2.21%
1996 Merged Area Revenue, Series B	2.28%
2003 Merged Area Revenue, Series A	3.30%
2003 Merged Area Revenue, Series B	2.28%
2005 Housing, Series C	1.96%
2005 Housing, Series D	2.00%
HUD Section 108 loan	3.53%

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding as of June 30, 2005, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Merged Tax Allocation Bonds		Housing Tax Allocation Bonds		Other Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 28,960	\$74,011	\$ 3,300	\$ 8,894	\$ 7,990	\$ 14,263	\$ 40,250	\$ 97,168
2007	33,560	72,625	5,980	11,571	11,055	14,143	50,595	98,339
2008	35,285	70,807	6,720	11,410	12,165	13,717	54,170	95,934
2009	37,170	68,870	6,935	11,216	16,420	13,236	60,525	93,322
2010	39,135	66,861	7,175	10,991	13,930	12,697	60,240	90,549
2011-2015	227,835	301,385	40,405	50,778	84,465	54,085	352,705	406,248
2016-2020	289,905	238,031	50,110	41,766	96,160	34,450	436,175	314,247
2021-2025	336,170	161,577	59,110	29,934	86,235	12,970	481,515	204,481
2026-2030	308,145	78,134	58,315	16,001	25,205	3,030	391,665	97,165
2031-2035	167,935	14,826	39,730	4,471	11,100	515	218,765	19,812
2036	-	-	895	22	-	-	895	22
Subtotal	1,504,100	1,147,127	278,675	197,054	364,725	173,106	2,147,500	1,517,287
Add/(Less):								
Unamortized deferred amount on refunding	(19,871)	-	-	-	(3,002)	-	(22,873)	-
Unamortized premium	17,856	-	-	-	807	-	18,663	-
Total	<u>\$1,502,085</u>	<u>\$1,147,127</u>	<u>\$278,675</u>	<u>\$197,055</u>	<u>\$362,530</u>	<u>\$173,106</u>	<u>\$2,143,290</u>	<u>\$1,517,287</u>

Conduit Debt

In April 1998, the Agency served as the conduit issuer of \$38,000,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance the acquisition and construction of a multifamily residential project in the Century Center Redevelopment Project Area. The Agency has no obligation for these bonds, as they will be payable solely from and secured to the extent provided in the indenture by a pledge of certain revenues and other amounts to be received by the Agency under the Loan Agreement. A developer has arranged for an initial irrevocable direct-pay letter of credit to be issued in favor of the trustee. As of June 30, 2005, there have been no principal retirements.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

In August 1997, the Agency served as the conduit issuer of \$10,595,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance a multifamily rental housing project in the Japantown Redevelopment Project Area. The Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association. The bonds were issued for the purpose of expanding the community's supply of low to moderate-income housing, and to construct a community center and retail space. The loan is secured on a nonrecourse basis and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d) (4) of the National Housing Act and applicable regulations thereunder. At June 30, 2005, the outstanding balance was \$10,058,000.

I. Net Assets/Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets* – This category groups all capital assets into one component of net assets. The balance is the net of accumulated depreciation; however, all bond proceeds associated with the acquisition have been repaid and, therefore, do not reduce the net asset position of the capital assets.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets (Deficit)* – This category represents net assets (deficit) of the Agency, not restricted for any project or other purpose.

Fund balances consist of reserved and unreserved amounts. Reserved fund balance represents that portion of the fund balances which is not available for appropriation for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved fund balance. In the budget, management has designated certain portions of fund balance to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or other capital projects.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

As of June 30, 2005, reservations of fund balance are described below:

- *Long-term receivables* – to reflect the amount due from developers related to the HUD Section 108 loan. Such amounts do not represent available spendable resources.
- *Advances and deposits* - to reflect the amount due from other funds that are long-term in nature and amounts deposited with third parties. Such amounts do not represent available spendable resources.
- *Debt service* - to reflect the funds held by trustees or fiscal agents for future payment of bond principal, interest, and reserve accounts. These funds are legally restricted for repayment of debt.
- *Low and moderate-income housing activities* - to reflect the amounts required by state law to be used for low and moderate-income housing activities.
- *Encumbrances* - to reflect the outstanding contractual obligations for which goods and services have not yet been received.

III. OTHER INFORMATION

A. Contingencies

Risk Management

The Agency 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 Agency carries commercial insurance policies. The insurance premiums are paid from the General Fund. For the fiscal year ended June 30, 2005, one uninsured claim was required to be recognized, which is reported as part of long-term liabilities in the government-wide financial statements. 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. During the past three years, there have been no instances where the amount of claim settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

Litigation

In August 2004, the City and the Agency filed a lawsuit seeking a judicial determination as to whether the County had breached an agreement entered into among the parties in May 2001 (the 2001 Agreement). The 2001 Agreement included provisions regarding redevelopment tax increment allocation and the application of land use procedures in County territory within the San Jose urban service area. The City and the Agency contend that under the 2001 Agreement, the

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

County was required to abide by City land use procedures before it entered into agreements with private entities for the development of a theater on the County fairgrounds.

In April 2005, the County filed a cross complaint against the City and the Agency alleging, among other things, breach of the 2001 Agreement, breach of the 2001 Agreement's implied covenant of good faith and fair dealing, and intentional interference with prospective economic relations. The County's cross complaint alleges no specific amount of damages and seeks damages and restitution according to proof. If the County were to prevail in this cross complaint, the City and the Agency are unable to predict the nature or amount of damages that can be proven.

The Agency is subject to various other claims and from time to time is involved in lawsuits in which damages are sought. As litigation is subject to many uncertainties and as the outcome of litigated matters cannot be predicted with certainty, it is reasonably possible that some of these legal actions could be decided unfavorably against the Agency.

B. Commitments

Capital Expenditure Projections

On June 18, 2004, the Agency Board adopted the Operating and Capital Budgets for FY 2004-2005. Because of financial challenges posed by both State budgetary impacts and a reduced assessment roll, Agency Board approved on October 26, 2004 a Two-year Spending plan and amended the 2004-2005 adopted budgets. The Two-year Spending Plan shows a total spending of \$807 million for the 2-year period (FY 2004-2005 and 2005-2006). Of this amount, \$229 million is to be spent on capital expenditures, \$297 million for financing/non-project costs, \$19 million for operating expenditures, \$75 million for obligated payments and \$187 million for capital reserve.

Defined Contribution Retirement Plan

In January 1995, the Agency Board adopted a defined contribution retirement plan, the Redevelopment Agency of the City of San Jose Retirement Plan (the Plan), which provides pension benefits for its employees. For eligible employees who contribute 3.5% of their annual base salary, the Agency contributes approximately 9.0%. Agency contributions are based on a formula taking into account employee annual base salary and length of service. The Agency'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. Agency contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the Agency's contribution requirement or to offset the plan's operating expenses. Three Agency employees are co-trustees of the Plan. The Agency 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 Agency Board must authorize changes to the Plan.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

The total payroll in fiscal year 2004-2005 for the Agency's direct employees was approximately \$7,397,000. Both the Agency and the participating employees made contributions to the Plan amounting to approximately \$667,000 and \$251,000, respectively.

Leases

A schedule by years of future minimum rental payments required under the Agency's noncancellable operating leases for office facilities, business equipment, and land as of June 30, 2005 (net of income from subleases) is as follows (in thousands):

<u>Year Ending June 30</u>	<u>Minimum Payments</u>	<u>Income from Subleases</u>	<u>Net Minimum Payments</u>
2006	\$ 1,707	\$ (33)	\$ 1,674
2007	1,439	-	1,439
2008	1,295	-	1,295
2009	1,270	-	1,270
2010	818	-	818
2011-2015	3,077	-	3,077
2016-2020	2,810	-	2,810
Total minimum payments required	<u>\$ 12,416</u>	<u>\$ (33)</u>	<u>\$ 12,383</u>

The total net rent expense for operating leases in fiscal year 2004-2005 was approximately \$3,958,000.

C. Related Party Transactions with the City of San José

Amounts Received from and Payments to the City

The Agency is required by the California Community Redevelopment Law to designate 20% of all incremental property tax revenues for low and moderate-income housing activities (the Special Revenue Fund). In addition, in fiscal 1992, the Agency elected to designate 20% of County supplemental assessment revenues for those purposes. The City's Housing Department administers funds so designated. During fiscal year 2004-05, the Agency transferred to the City's Housing Department \$29,945,042 of property taxes in the Special Revenue Fund.

Annually, the City's Housing Department makes payments to the Agency for the repayment of debt service on the Housing Bonds, Series A through K. Approximately \$14,527,905 of such payments was made during fiscal year 2004-2005. Also during fiscal year 2004-2005, the Agency transferred to the City's Housing Department approximately \$30,600,000, representing proceeds from the 2005 Housing Set Aside Tax Allocation Bonds issued in June 2005.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

As part of the pledge agreement entered by the Agency and the City of San José Financing Authority on the 4th/San Fernando Garage Parking Revenue Bond - Series 2002A, the Agency transferred during the year the total amount of \$3,367,000 representing principal and interest due on the bonds in the subsequent year.

In April 2002, the City, Agency, and the plaintiffs in the Ruffo case (a lawsuit arising out of the proposed relocation of the San José City Hall to the Civic Plaza Redevelopment Area in downtown San José) entered into a Settlement Agreement under which the parties agreed that the City would repay the Agency's site assembly costs with interest. In July 2002, the City and Agency entered into a Transfer Agreement whereby the City agreed to reimburse the Agency's costs including interest. As of June 30, 2005, the Agency has recognized a receivable from the City in the amount of \$5,296,288, of which \$1,628,571 represents current year amounts.

In June 2001, the Agency Board, in relation to Parkland Dedication Ordinance (PDO) and Park Impact Ordinance (PIO), adopted a resolution approving a Parkland In-Lieu Fee Low-Income Unit Voucher Program for the payment of subsidized parkland fees for low-income residential units by the Agency. On October 26, 2004 the Board extended the program until December 31, 2005. Under this program, developers of new residential projects are required to dedicate parkland, construct improvements and/or pay equivalent in-lieu fees for neighborhood and community-serving parks. Developers of low-income residential units are issued a voucher from the City's Housing Department to present to the City's Building Division in lieu of the payment of parkland fees, required by PDO and PIO. The Agency then reimburses the City's Parks Trust Fund in the amount of the voucher. To date, the Agency paid a cumulative amount of \$22,343,000 to the City. As of June 30, 2005, the Agency accrued the amount of \$5,493,600 representing unpaid vouchers turned in by the developers to the City during the year ended June 30, 2005.

In addition, other payments are made to and received from the City. The following significant transactions were made during the year: 1) the Agency paid from its General Fund approximately \$5,032,000 for City support services, 2) a payment made by the City to the Agency in the amount of \$13,019,000 and reimbursed by the Agency pursuant to the Second Amended and Restated Reimbursement Agreement for the Convention Center Refunded Bonds, and 3) the payments related to the San José Arena management agreement are paid from the Agency's Capital Projects Fund and totaled \$322,000 for fiscal year 2004-2005. The City owed the Agency approximately \$299,000 for accrued investment earnings at June 30, 2005.

In the past, the Agency advanced a portion of a loan made by the City's Housing Department to a third party providing shelter for women. The advance is recorded at its net realizable value of \$580,000 and will be repaid when the loan is collected by the City's Housing Department.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

Cooperation Agreements with the City

The Agency entered into Cooperation Agreements to assist in funding various projects constructed on its behalf by the City and to reimburse the City for the actual salaries and fringe benefits of City employees who work under the supervision of the Agency's Executive Director or designee, including other City staff in providing support services to the Agency. These agreements state the Agency's commitment for a one-year period consistent with the Agency's capital and operating budgets and are renewed on an annual basis.

The agreements further calls for the Agency to submit a Project Service Memorandum (PSM) to the appropriate City Department prior to the start of the construction project. Funds are transferred to the City to cover the costs of completing the project including reasonable related administrative costs. After a PSM is approved by the Agency and agreed upon by the City, the Agency shall have no additional obligation relating to the agreed costs of the project except as may be agreed to in writing by the Agency and City. Any surplus funds in the project account are returned to the Agency. The agreement also states that the Agency may cancel the project and any unused funds shall be returned by the City to the Agency.

The amounts paid for construction projects and City's personnel costs in connection with these Cooperation Agreements during fiscal year 2004-2005 totaled \$19,259,831 and \$5,032,000, respectively.

During the year, the City paid approximately \$2,892,000 to the Agency for its share of the cost of several projects and returned approximately \$199,000 of unused construction money on capital projects funded by the Agency per the Cooperation Agreement.

D. Tax Sharing Agreement and Other Payments to the County of Santa Clara

Tax Sharing

In 1983, the Agency and the County of Santa Clara (the County) entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project Area (the County Pass-Through Payment). On December 16, 1993, the Agency, the County, and the City entered into a Settlement Agreement, which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City, and the Agency approved an Amended and Restated Agreement (the "Amended Agreement"). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires the Agency to transfer funds to the County to pay for such projects (the "Delegated Payment"). The Delegated Payment stemming from a portion of the property tax increment ceased by June 30, 2004. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency's Tax Revenues (excluding refunding bonds) must be paid to the County as the Delegated Payment.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Basic Financial Statements (Continued)
June 30, 2005**

For the fiscal year 2004-05, the Pass-Through amount totaled \$11,870,645.

ERAF Payment

On August 5, 2004, SB 1096 was signed into law requiring redevelopment agencies statewide to shift for two years (2004-2006) the amount of \$250 million in property tax increment revenues to the State of California Educational Revenue Augmentation Fund as a way to reduce the State's 2004-2006 budget deficit. The Agency's share of this revenue shift is \$18,626,954 for 2004-05 and budgeted for \$16,082,000 in 2005-06. Accordingly, a payment was made on May 10, 2005 and the next payment will be made on May 10, 2006.

E. Subsequent Event

Issuance of 2005 Merged Area Tax Allocation Bonds

On July 25, 2005, the Agency issued Merged Area Tax Allocation Bonds Series 2005A and 2005B totaling to \$153 million and \$67 million, respectively. The proceeds of the bonds are used mainly to refund a portion of Merged Area Tax Allocation Bonds Series 1993, 1997, 1998, 1999 and 2002. The bonds are payable from and secured by a pledge of the tax revenues on parity with other Merged Area Redevelopment Project Tax Allocation Bonds.



Northside Community Center



Children's Discovery Museum

Other Required Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Variance with Final Budget Positive (Negative)			
Revenues:						
Investment income	\$ 93,277	\$ 93,277	\$ -	\$ 93,277	\$ -	\$ 93,277
Rent	851,507	851,507	-	851,507	-	851,507
Other	332,396	332,396	-	332,396	-	332,396
Total revenues	<u>1,277,180</u>	<u>1,277,180</u>	<u>-</u>	<u>1,277,180</u>	<u>-</u>	<u>1,277,180</u>
Expenditures:						
Current:						
General government:						
Personnel services	12,589,827	3,576,112	275,666	3,300,446	-	3,300,446
Non-personnel services	4,438,455	413,416	133,777	279,639	(187,292)	92,347
Intergovernmental:						
Payments to the City of San José	5,308,602	5,308,602	277,022	5,031,580	-	5,031,580
Total expenditures	<u>22,336,884</u>	<u>9,298,130</u>	<u>686,465</u>	<u>8,611,665</u>	<u>(187,292)</u>	<u>8,424,373</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,059,704)</u>	<u>(8,020,950)</u>	<u>686,465</u>	<u>(7,334,485)</u>	<u>187,292</u>	<u>(7,147,193)</u>
Other financing sources (uses):						
Transfers in	14,354,198	1,315,444	(640,444)	675,000	-	675,000
Total other financing sources	<u>14,354,198</u>	<u>1,315,444</u>	<u>(640,444)</u>	<u>675,000</u>	<u>-</u>	<u>675,000</u>
Net change in fund balance	<u>(6,705,506)</u>	<u>(6,705,506)</u>	<u>46,021</u>	<u>\$(6,659,485)</u>	<u>187,292</u>	<u>(6,472,193)</u>
Fund balance, beginning of year	<u>6,705,506</u>	<u>6,705,506</u>	<u>-</u>	<u>6,705,506</u>	<u>-</u>	<u>6,705,506</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,021</u>	<u>\$ 46,021</u>	<u>187,292</u>	<u>\$ 233,313</u>

See Accompanying Notes to Other Required Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Special Revenue Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Positive (Negative)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
Tax increment	\$ 33,400,000	\$ 29,626,889	\$ 368,406	\$ 29,995,295	\$ -	\$ 29,995,295
Expenditures:						
Intergovernmental:						
Payments to the City of San José	33,600,000	30,026,889	81,847	29,945,042	-	29,945,042
Net change in fund balance	(200,000)	(400,000)	450,253	50,253	-	50,253
Fund balance, beginning of year	-	-	-	-	-	-
Fund balance, end of year	<u>\$ (200,000)</u>	<u>\$ (400,000)</u>	<u>\$ 450,253</u>	<u>\$ 50,253</u>	<u>\$ -</u>	<u>\$ 50,253</u>

See Accompanying Notes to Other Required Supplementary Information

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to Other Required Supplementary Information
June 30, 2005**

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Information

The budget of the Agency is an operating plan that identifies estimated costs and results in relation to estimated revenues. Budgets are prepared according to the following guidelines for the General and Special Revenue Funds:

General Fund

The operating expenditures are budgeted by appropriation according to type of expenditures, categorized as personnel and non-personnel.

Special Revenue Fund

Twenty percent of the tax increment revenues are budgeted by the Board for payment to the low and moderate-income housing program of the City of San Jose.

During the fiscal year, the procedures followed to establish the budgetary data reflected in the accompanying budget to actual schedules were as follows:

Original Budget

Prior to the beginning of the budget year, the Executive Director of the Agency presents to the Board the fiscal budget for the ensuing year. The budget is prepared on a budgetary basis, which does not conform with GAAP, as encumbrances are included as expenditures. Revenue estimates are presented to the Agency Board in total and are approved by revenue resolution.

Prior to June 30 of each year, the annual budget is finalized through passage of the annual appropriation resolution and an annual revenue resolution by the Agency Board, which is the legal authority for enactment of the budget. Management allocates budgeted revenue to the Special Revenue Fund based on priorities established by the California Community Redevelopment Law, bond indentures, and other legal agreements.

The annual appropriation resolution adopts the expenditure budget at the appropriation level (project, personnel, and non-personnel). Accordingly, the lowest level of budgetary control exercised by the Agency Board is the appropriation level. Management can transfer budgeted amounts between project activities included in each appropriation without the approval of the Agency's Board.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to Other Required Supplementary Information
June 30, 2005**

Final Budget

Supplemental appropriations may be approved during the budget year if there are funds available in the capital reserve. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended or encumbered. No expenditures may be made in excess of amounts appropriated by the Agency Board.

The Agency Board approves changes to the revenue estimates by adoption of a supplemental revenue resolution. The budgetary data presented in the accompanying budget to actual schedules includes all revisions approved by the Agency Board.

B. Budgetary Results Reconciled To GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The only difference between the budgetary basis actual and GAAP basis is that the year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis schedules, while encumbered amounts are not recognized as expenditures on the GAAP basis statements until recorded as actual expenditures.



Guadalupe River Park & Gardens

Other Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Housing Debt Service Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts	Budgetary to GAAP	Actual Amounts
	Original	Final	Variance with Final Budget Positive (Negative)	Budgetary Basis	Differences	GAAP Basis
Revenues:						
Intergovernmental	\$ 14,527,905	\$ 14,527,905	\$ -	\$ 14,527,905	\$ -	\$ 14,527,905
Investment income	5,333	5,333	-	5,333	-	5,333
Total revenues	<u>14,533,238</u>	<u>14,533,238</u>	<u>-</u>	<u>14,533,238</u>	<u>-</u>	<u>14,533,238</u>
Expenditures:						
Intergovernmental:						
Payments to the City of San José	30,600,000	30,600,000	-	30,600,000	-	30,600,000
Debt service:						
Principal repayment	3,240,000	3,240,000	-	3,240,000	-	3,240,000
Interest	9,458,645	9,458,645	-	9,458,645	-	9,458,645
Payments to refunded bond escrow agent	2,021,984	2,021,984	-	2,021,984	-	2,021,984
Bond issuance costs	3,518,797	3,518,797	-	3,518,797	-	3,518,797
Total expenditures	<u>48,839,426</u>	<u>48,839,426</u>	<u>-</u>	<u>48,839,426</u>	<u>-</u>	<u>48,839,426</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(34,306,188)</u>	<u>(34,306,188)</u>	<u>-</u>	<u>(34,306,188)</u>	<u>-</u>	<u>(34,306,188)</u>
Other financing sources (uses):						
Refunding bonds issued	195,870,000	195,870,000	-	195,870,000	-	195,870,000
Premium on refunding bonds	395,104	395,104	-	395,104	-	395,104
Payment to refunded bond escrow agent	(126,898,747)	(126,898,747)	-	(126,898,747)	-	(126,898,747)
Total other financing sources	<u>69,366,357</u>	<u>69,366,357</u>	<u>-</u>	<u>69,366,357</u>	<u>-</u>	<u>69,366,357</u>
Net change in fund balance	35,060,169	35,060,169	-	35,060,169	-	35,060,169
Fund balance, beginning of year	191,312	191,312	-	191,312	-	191,312
Fund balance, end of year	<u>\$ 35,251,481</u>	<u>\$ 35,251,481</u>	<u>\$ -</u>	<u>\$ 35,251,481</u>	<u>\$ -</u>	<u>\$ 35,251,481</u>

See Accompanying Notes to Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Merged Debt Service Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts Budgetary	Budgetary to GAAP	Actual Amounts
	Original	Final	Variance with Final Budget Positive (Negative)	Basis	Differences	GAAP Basis
Revenues:						
Tax increment	\$ 93,935,686	\$ 93,935,686	\$ -	\$ 93,935,686	\$ -	\$ 93,935,686
Investment income	2,287,570	4,612,760	(3,452,159)	1,160,601	-	1,160,601
Total revenues	<u>96,223,256</u>	<u>98,548,446</u>	<u>(3,452,159)</u>	<u>95,096,287</u>	<u>-</u>	<u>95,096,287</u>
Expenditures:						
Debt service:						
Principal repayment	28,025,000	28,025,000	-	28,025,000	-	28,025,000
Interest and other charges	85,144,340	85,144,340	-	85,144,340	-	85,144,340
Bond issuance costs	458,046	458,046	-	458,046	-	458,046
Total expenditures	<u>113,627,386</u>	<u>113,627,386</u>	<u>-</u>	<u>113,627,386</u>	<u>-</u>	<u>113,627,386</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(17,404,130)</u>	<u>(15,078,940)</u>	<u>(3,452,159)</u>	<u>(18,531,099)</u>	<u>-</u>	<u>(18,531,099)</u>
Other financing sources (uses):						
Transfers in	20,967,520	20,967,520	-	20,967,520	-	20,967,520
Transfers out	(116,367)	(116,367)	-	(116,367)	-	(116,367)
Total other financing sources	<u>20,851,153</u>	<u>20,851,153</u>	<u>-</u>	<u>20,851,153</u>	<u>-</u>	<u>20,851,153</u>
Net change in fund balance	3,447,023	5,772,213	(3,452,159)	2,320,054	-	2,320,054
Fund balance, beginning of year	<u>76,545,508</u>	<u>76,545,508</u>	<u>-</u>	<u>76,545,508</u>	<u>-</u>	<u>76,545,508</u>
Fund balance, end of year	<u>\$ 79,992,531</u>	<u>\$ 82,317,721</u>	<u>\$ (3,452,159)</u>	<u>\$ 78,865,562</u>	<u>\$ -</u>	<u>\$ 78,865,562</u>

See Accompanying Notes to Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Capital Projects Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Positive (Negative)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
Tax increment	\$ 40,664,314	\$ 25,371,871	\$ 673,626	\$ 26,045,497	\$ -	\$ 26,045,497
Intergovernmental	17,748,062	17,748,062	-	17,748,062	-	17,748,062
Investment income	325,985	856,581	3,913,567	4,770,148	-	4,770,148
Grant revenue	3,433,000	1,800,000	(780,122)	1,019,878	-	1,019,878
Collection of loans	-	-	8,722,850	8,722,850	-	8,722,850
Rent	749,176	672,456	(272,681)	399,775	-	399,775
Other	96,604	2,614,504	(371,948)	2,242,556	-	2,242,556
Total revenues	<u>63,017,141</u>	<u>49,063,474</u>	<u>11,885,292</u>	<u>60,948,766</u>	<u>-</u>	<u>60,948,766</u>
Expenditures:						
Current:						
General government:						
Personnel services	-	8,992,307	548,382	8,443,925	-	8,443,925
Non-personnel services	-	4,307,715	590,254	3,717,461	(792,753)	2,924,708
Intergovernmental:						
Payments to the City of San José	14,110,788	13,340,620	-	13,340,620	-	13,340,620
Payments to the County of Santa Clara	36,292,626	33,736,430	1,546,663	32,189,767	-	32,189,767
Payments to other governmental agencies	1,090,000	959,200	534,226	424,974	-	424,974
Capital outlay:						
Project expenditures	120,572,066	134,612,121	57,373,637	77,238,484	(31,075,865)	46,162,619
Payments to the City of San José	23,702,481	23,702,481	-	23,702,481	1,050,950	24,753,431
Total expenditures	<u>195,767,961</u>	<u>219,650,874</u>	<u>60,593,162</u>	<u>159,057,712</u>	<u>(30,817,668)</u>	<u>128,240,044</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(132,750,820)</u>	<u>(170,587,400)</u>	<u>72,478,454</u>	<u>(98,108,946)</u>	<u>30,817,668</u>	<u>(67,291,278)</u>
Other financing sources (uses):						
Bonds and notes issued	22,485,000	22,485,000	-	22,485,000	-	22,485,000
Sale of land	18,450,000	4,093,000	388,897	4,481,897	-	4,481,897
Transfers in	116,367	116,367	-	116,367	-	116,367
Transfers out	(21,517,107)	(21,517,107)	(125,413)	(21,642,520)	-	(21,642,520)
Total other financing sources	<u>19,534,260</u>	<u>5,177,260</u>	<u>263,484</u>	<u>5,440,744</u>	<u>-</u>	<u>5,440,744</u>
Net change in fund balance	<u>(113,216,560)</u>	<u>(165,410,140)</u>	<u>72,741,938</u>	<u>(92,668,202)</u>	<u>30,817,668</u>	<u>(61,850,534)</u>
Fund balance, beginning of year	<u>180,118,875</u>	<u>180,118,875</u>	<u>-</u>	<u>180,118,875</u>	<u>-</u>	<u>180,118,875</u>
Fund balance, end of year	<u>\$ 66,902,315</u>	<u>\$ 14,708,735</u>	<u>\$ 72,741,938</u>	<u>\$ 87,450,673</u>	<u>\$ 30,817,668</u>	<u>\$ 118,268,341</u>

See Accompanying Notes to Supplementary Information

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Supplementary Information
June 30, 2005**

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Information

The budget process for the Housing Debt Service Fund, Merged Debt Service Fund, and Capital Projects Fund followed the same procedures to establish the budgetary data for the General Fund and Special Revenue Fund, which can be found in the Notes to Other Required Supplementary Information on pages 65-66.

Housing and Merged Debt Service Funds

Expenditures are budgeted according to bond indenture requirements. Appropriations for Housing and Merged Debt Service Funds were implicitly adopted by the Agency Board when the formal bond resolutions were approved.

Capital Projects Fund

Capital Projects Fund expenditures are budgeted by project, on a project-length basis. Annual appropriations include items such as direct project payments, land acquisition, payments to the City under cooperation agreements, and other expenditures.

B. Budgetary Results Reconciled To GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget and actual comparison schedule in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major difference between the budgetary basis actual and GAAP basis is that the year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis basic financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until recorded as actual expenditures. In addition, certain expenditures recorded for GAAP purposes may be budgeted in a different fiscal year.

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Notes to the Supplementary Information
June 30, 2005**

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a GAAP basis are as follows:

	<u>Capital Projects Fund</u>
Expenditures per statement of revenues, expenditures and changes in fund balances (GAAP basis)	\$ 128,240,044
GAAP basis expenditures to be budgeted in subsequent periods	(5,493,600)
Prior year GAAP basis expenditures budgeted in this period	4,442,650
Encumbrances	<u>31,868,618</u>
Expenditures - budgetary basis	<u><u>\$ 159,057,712</u></u>

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California Theatre

Statistical Section

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Government-wide Expenses by Function and Government-wide Revenue
Last Four Fiscal Years

(Dollars expressed in thousands)

Government-wide Expenses by Function

Fiscal Year	General Government	Community Development	Housing	Debt Service	Total
2002	\$ 25,064	\$ 232,048	\$ 65,521	\$ 86,245	\$ 408,878
2003	26,903	332,506	79,410	92,895	531,714
2004	22,270	181,384	61,678	94,084	359,416
2005	8,498	134,001	60,545	91,512	294,556

Government-wide Revenues

Fiscal Year	Program Revenues		General Revenues			Total
	Operating Grants and Contributions	Capital Grants and Contributions	Tax Increment	Investment and Interest Earnings	Miscellaneous	
2002	\$ 23,067	\$ 48,358	\$ 188,459	\$ 14,370	\$ 6,626	\$ 280,880
2003	25,093	97,690	198,026	7,513	5,904	334,226
2004	24,173	18,114	170,208	4,331	2,740	219,566
2005	27,547	5,749	149,976	6,029	7,941	197,242

Note: Since the new reporting model (GASB 34) changes significantly both the recording and presentation of financial data, fiscal years prior to 2002 have not been restated for the purpose of providing the 10-year comparative information for the above schedule.

Table 2

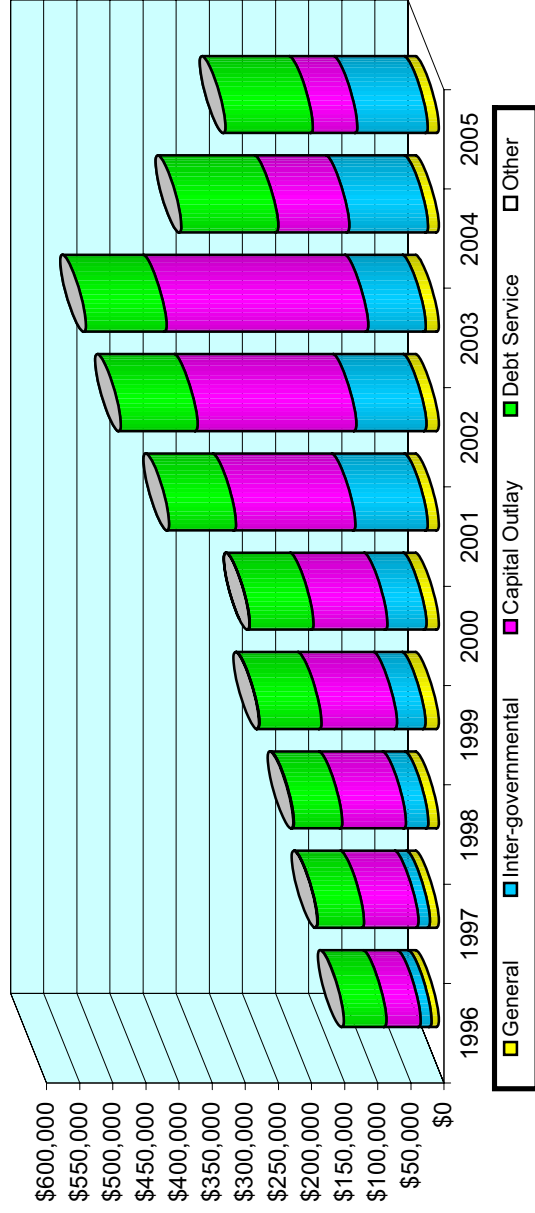
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

General Expenditures by Function

Governmental Funds

Last Ten Fiscal Years

(Dollars expressed in thousands)

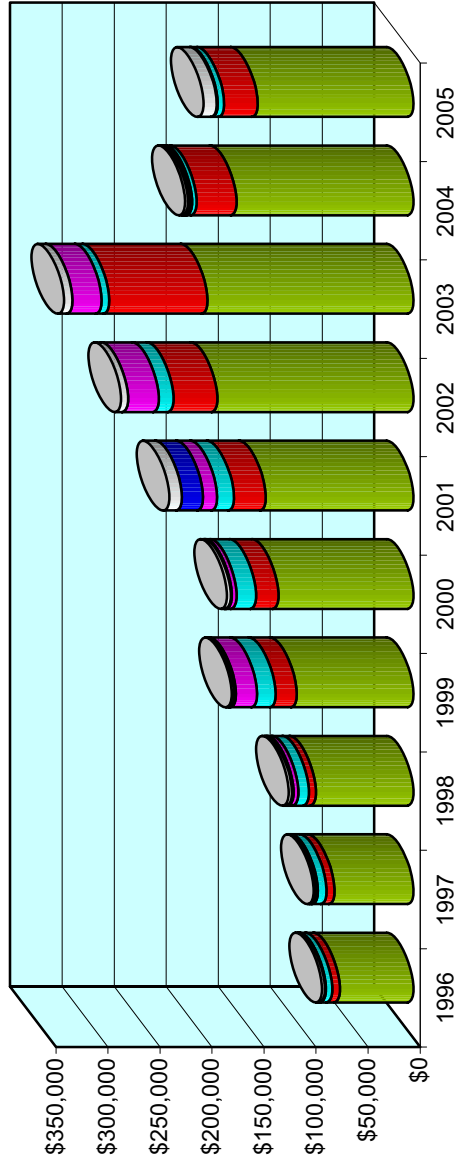


Fiscal Year	Intergovernmental		Capital		Debt		Total
	General	Other	Outlay	Service	Service	Other	
1996	\$ 10,953	\$ 16,388	\$ 51,910	\$ 64,043	\$ 143,748	\$ 454	\$ 143,748
1997	13,667	17,468	82,055	69,986	183,510	334	183,510
1998	15,928	33,864	96,164	72,897	219,720	867	219,720
1999	20,144	43,203	114,068	93,461	271,600	724	271,600
2000	18,652	58,987	111,631	96,487	286,116	359	286,116
2001	16,867	109,415	179,866	101,100	407,248	-	407,248
2002	18,622	105,823	239,946	115,974	480,365	-	480,365
2003	19,864	86,922	304,466	121,836	533,088	-	533,088
2004	16,538	118,733	107,533	146,208	389,012	-	389,012
2005	14,761	117,025	65,422	131,867	329,075	-	329,075

Table 3

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

General Revenues by Source
Governmental Funds
Last Ten Fiscal Years
(Dollars expressed in thousands)



■ Taxes ■ Intergovernmental ■ Investment Income ■ Developer Contributions ■ Grant Revenue □ Other

Fiscal Year	Tax Increment	Intergovernmental	Investment Income	Developer Contributions	Grant Revenue	Other	Total
1996	\$ 70,757	\$ 7,543	\$ 5,873	\$ 837	\$ 307.0	\$ 2,736	\$ 88,053.0
1997	76,020	7,578	8,373	911	1,391	1,577	95,850
1998	93,740	6,919	9,961	4,797	1,607	2,887	119,911
1999	112,217	20,252	18,061	20,219	1,646	2,370	174,765
2000	129,681	21,617	18,731	4,641	1,107	3,568	179,345
2001	142,151	30,580	16,087	13,704	20,207	12,022	234,751
2002	188,459	42,311	14,155	29,630	-	6,626	281,181
2003	198,026	94,482	7,513	27,949	35	7,836	335,841
2004	170,208	38,407	4,331	2,148	1,731	2,895	219,720
2005	149,976	32,276	6,029	50	1,020	12,499	201,850

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Actual Assessed Value and Tax Increment Revenue

Merged Area Redevelopment Project

Last Ten Fiscal Years

(Dollar amounts expressed in thousands)

Table 4

Fiscal Year	Assessed Value (1)	% Change	Tax Increment	Supplemental Assessment	Gross Tax Revenues	% Change
1996	7,016,990	4%	67,878	355	68,233	2.9%
1997	7,680,818 (2)	7%	74,372 (3)	1,650	76,022	11.4%
1998	9,292,365	21%	91,113	5,100	96,213	26.6%
1999	11,228,356	21%	106,298	5,918	112,216	16.6%
2000	12,382,598	10%	119,982	9,699	129,681	15.6%
2001	13,761,356	11%	134,649	7,502	142,151	9.6%
2002	17,866,814	30%	175,926	12,533	188,459	32.6%
2003	18,732,944	5%	187,448	10,578	198,026	5.1%
2004	16,962,642	(9.5%)	168,502	1,706	170,208	(14.0%)
2005	15,040,831	(11.3%)	148,329	1,647	149,976	(11.9%)

(1) Total assessed value for tax increment generating area of the Merged Area. Tax increment revenue calculated on incremental assessed value, after subtracting base year assessed value from total assessed value. For fiscal year 2004-2005, total assessed value includes \$11,197,792,000 in value on the secured roll and \$3,843,039,000 in value on the unsecured roll. The current base year is \$1,097,107,000.

(2) Includes Park Center beginning 1997 which was merged in 1996.

(3) Percentage change does not include Park Center.

Source: Santa Clara County Assessor, Urban Analytics, LLC and Redevelopment Agency of the City of San Jose.

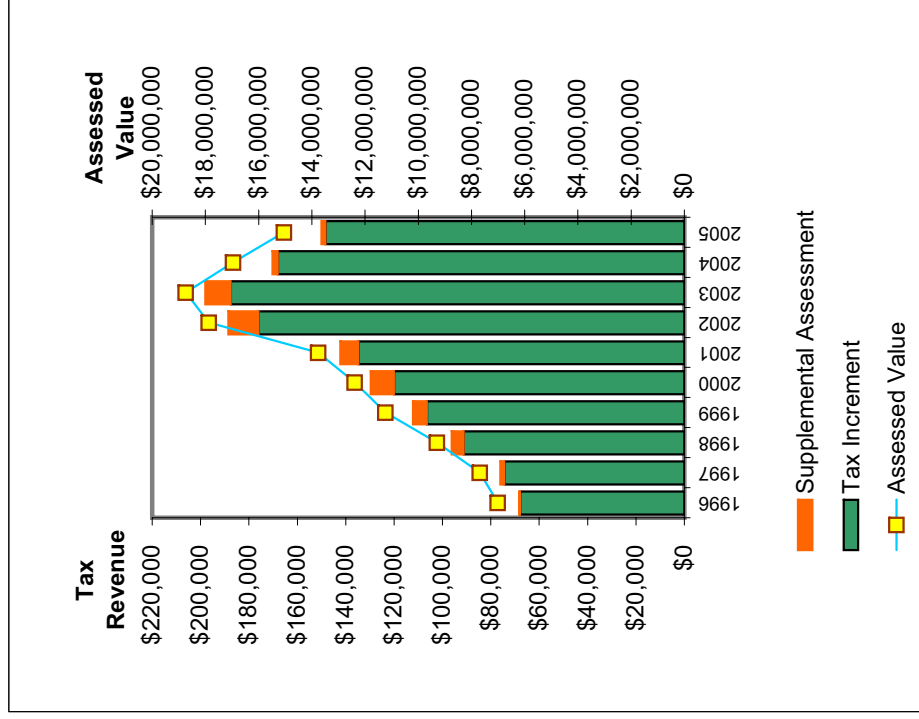


Table 5

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Merged Area Redevelopment Projects

Ten Largest Property Owners

Fiscal Year Ended June 30, 2005

(Dollars expressed in thousands)

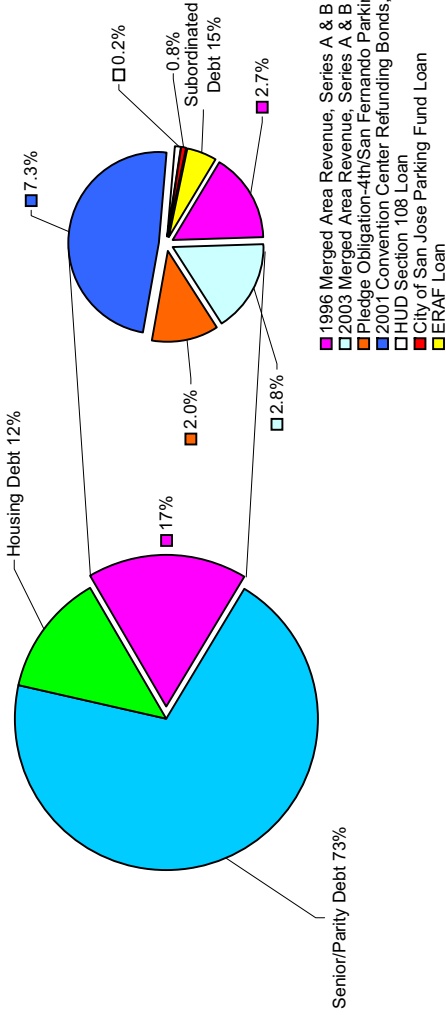
	Taxpayer	Type of Industry	Assessed		Assessed Unsecured Value	Total Assessed Value	% of Total
			Secured Value	Value			
1	Cisco Systems, Inc.	Computer Networking Equipment	\$ 586,080	\$	1,374,074	\$ 1,960,154	13.03%
2	Hitachi Global Storage Techs, Inc.	Computer Disc Storage	564,125	-	-	564,125	3.75%
3	Spieker Properties Lp	Real Estate Development	343,410	-	-	343,410	2.28%
4	Irvine Community Dev Company	Real Estate Development	295,897	-	-	295,897	1.97%
5	Sobrato Companies	Real Estate Development	252,206	-	-	252,206	1.68%
6	Adobe Systems Inc.	Computer Software	201,866	49,631	-	251,497	1.67%
7	CarrAmerica Realty Corp.	Real Estate Development	241,462	91	-	241,553	1.61%
8	Agilent Technologies Inc.	Test/Measurement Equipment	181,178	17	-	181,195	1.20%
9	Novellus Systems Inc.	Semiconductor Equipment	-	169,477	-	169,477	1.13%
10	Los Esteros Critical Energy Facility	Power Plant Electrical	168,103	-	-	168,103	1.12%
Total - Ten Largest Property Owners			\$ 2,834,327	\$	1,593,290	\$ 4,427,617	29.44%
Total Assessed Value in the Merged Area's income generating area			\$ 11,197,792	\$	3,843,039	\$ 15,040,831	100.00%

Source: Santa Clara County Assessor, State Board of Equalization and Urban Analytics, LLC.

Table 6

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Debt Profile
June 30, 2005



	Due Serially To	Amounts (in thousands)
Senior/Parity Debt (debt payment equally secured)		
1993 Merged Area Refunding Tax Allocation Bonds	2024	\$ 317,330
1997 Merged Area Tax Allocation Bonds	2027	83,255
1998 Merged Area Tax Allocation Bonds	2029	168,320
1999 Merged Area Tax Allocation Bonds	2031	222,115
2002 Merged Area Tax Allocation Bonds	2032	302,085
2003 Merged Area Tax Allocation Bonds	2033	129,010
2004 Merged Area Tax Allocation Bonds, Series A	2019	281,985
Sub -Total		1,504,100
Housing Bonds		
1997 Housing Set-Aside Bonds, Series E	2027	17,045
2003 Housing Set-Aside Bonds, Series J & K	2024	65,760
2005 Housing Set-Aside Bonds, Series A & B	2024	129,720
2005 Housing Set-Aside Bonds, Series C & D	2024	66,150
Sub -Total		278,675
Subordinated Debt (in payment priority)		
1996 Merged Area Revenue, Series A & B	2026	57,600
2003 Merged Area Revenue, Series A & B	2032	60,000
Pledge Obligation-4th/San Fernando Parking Revenue Bonds	2027	43,870
2001 Convention Center Refunding Bonds, Series F	2022	176,850
ERAF Loan	2015	19,085
City of San Jose Parking Fund Loan	2009	3,400
HUD Section 108 Loan	2016	3,920
Sub -Total		364,725
Grand Total		\$ 2,147,500

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Miscellaneous Statistics

June 30, 2005

Table 7

Date Established:	1956
Governing Body:	City Council (as Board of Directors)
Number of Employees:	113
Population of City of San Jose	944,857*
Area:	177.7 sq. mi.*
Redevelopment Area (see geographical map)	18,687 acres dispersed throughout the City

	Project Areas		
	Area	Approximate Acreage **	Tax Increment Generating Area
Redevelopment Project Areas:			
1.) Downtown	8	300	7
2.) Neighborhood Business Districts:			
Neighborhood business districts (6) and non-contiguous business clusters (6)	7	684	0
Strong Neighborhood Initiative (22 neighborhoods)	1	9,874	0
3.) Industrial	5	7,829	5
Total Redevelopment Project Areas	<u>21</u>	<u>18,687</u>	<u>12</u>

Source: * - California Department of Finance and City of San Jose.

** - Acreages reflect an in-depth GIS analysis of the tax generating project areas as of December 21, 2004 by the Redevelopment Agency of the City of San Jose.

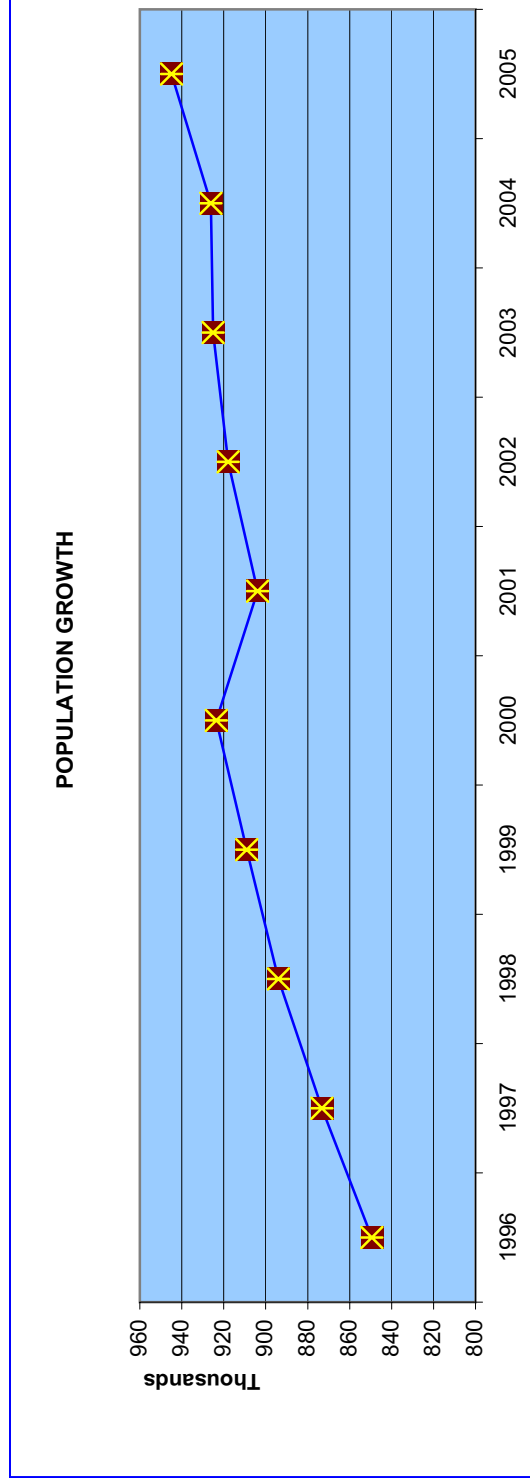
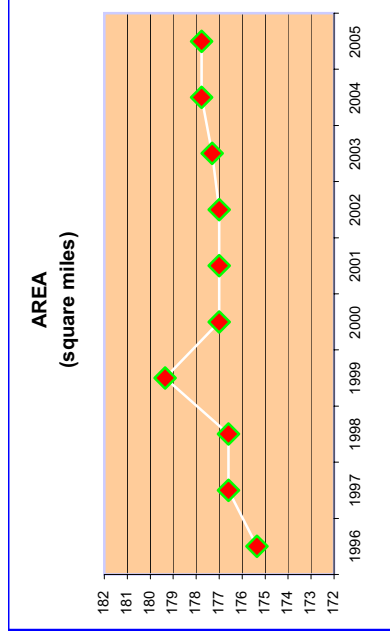
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Table 8

Population and Area of the City of San Jose

Last Ten Years

<u>Fiscal Year</u>	<u>Date</u>	<u>Population</u>	<u>Area in Square Miles</u>
1996	January 1	849,363	175.35
1997	January 1	873,286	176.60
1998	January 1	893,969	176.60
1999	January 1	909,100	179.35
2000	January 1	923,591	177.00
2001	January 1	903,800	177.00
2002	January 1	917,971	177.00
2003	January 1	925,000	177.30
2004	January 1	926,200	177.70
2005	January 1	944,857	177.70



Sources: City of San Jose Comprehensive Annual Financial Report for 1996 to 2000
California Department of Finance population estimates for 2001 to 2005.



Downtown San Jose Transit Mall



Heart of the City Project

Compliance Section



MACIAS GINI & COMPANY LLP

Mt. Diablo Plaza
2175 N. California Boulevard, Ste. 645
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The Board of Directors
Redevelopment Agency of the
City of San Jose, California

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of San Jose, California (Agency), a component unit of the City of San Jose, California, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Agency's basic financial statements. We have issued our report thereon dated September 13, 2005, which includes an explanatory paragraph due to the Agency adopting the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by Agency staff in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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*.

This report is intended solely for the information and use of the Board of Directors, management of the Agency and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP
Certified Public Accountants
Walnut Creek, California

September 13, 2005