



# Memorandum

**TO:** HONORABLE MAYOR,  
CITY COUNCIL AND  
SUCCESSOR AGENCY BOARD

**FROM:** Julia H. Cooper  
Richard A. Keit

**SUBJECT:** ANNUAL AUDITED  
FINANCIAL STATEMENTS

**DATE:** November 29, 2012

Approved

Date

11/29/12

## REASON FOR ADDENDUM

The December 4, 2012 City Council Agenda includes the presentation and recommendation to accept the City's fiscal year 2012 Comprehensive Annual Financial Report. The dissolution of the Redevelopment Agency resulted in a significant change in financial reporting and will be part of the presentation on December 4. It was staff's original plan to distribute the independent auditor's reports and basic financial statements for both the Redevelopment Agency of the City of San José and the Successor Agency to the Redevelopment Agency of the City of San José with a supplemental memo, but upon further consideration the financial statements need to be a separate agenda item for acceptance by the Successor Agency Board.

## RECOMMENDATION

Accept the independent auditor's reports and basic financial statements for both the Redevelopment Agency of the City of San José for the period July 1, 2011 to January 31, 2012 and the Successor Agency to the Redevelopment Agency of the City of San José for the period February 1, 2012 to June 30, 2012.

## OUTCOME

Acceptance of the independent auditor's reports and basic financial statements for both the Redevelopment Agency of the City of San José ("Agency") and the Successor Agency to the Redevelopment Agency of the City of San José ("SARA") will document the SARA Board's review and acceptance of the independent auditor's reports and basic financial statements.

## **BACKGROUND**

The City contracted with Macias Gini & O'Connell LLP ("MGO"), a firm of Certified Public Accountants licensed to practice in the State of California, to perform the independent audits of the Agency and SARA. The audits were conducted in accordance auditing standards generally accepted in the United States. MGO expressed opinions that the Agency and SARA financial statements are fairly stated in conformity with accounting principles generally accepted in the United States.

### **Redevelopment Agency of the City of San José**

The independent auditor's reports and basic financial statements for the Agency cover the period from July 1, 2011 to January 31, 2012 and are available on the City's website at:

<http://www.sjredevelopment.org/Finance/Auditor/AuditorReport&FinStatements-RDA-070111-013112.pdf>

The independent auditor's reports and basic financial statements are organized in the following sections:

- Independent Auditor's Report
- Management's Discussion and Analysis (unaudited)
- Basic financial statements including the Notes to the Basic Financial Statements which include the disclosures supporting the financial and the fund financial statements
- Other Required Supplementary Information (unaudited)
- Other Supplementary Information
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

### **Successor Agency of the Redevelopment Agency**

The independent auditor's reports and basic financial statements for SARA cover the period from February 1, 2012 to June 30, 2012 and are available on the City's website at:

<http://www.sjredevelopment.org/Finance/Auditor/AuditorReport&FinStatements-SARA-020112-063012.pdf>

The independent auditor's reports and basic financial statements are organized in the following sections:

- Independent Auditor's Report
- Management's Discussion and Analysis (unaudited)
- Basic Financial Statements including the Notes to the Basic Financial Statements which include the disclosures supporting the financial and the fund financial statements

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- Other Supplementary Information
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

### **ANALYSIS**

**The Agency's auditors provided an "unqualified or clean opinion" whereby they disclosed no instances of noncompliance with California Redevelopment Law and accounting principles generally accepted in the United States of America.**

The financial statements reflect the Agency's financial status as of the date of dissolution on January 31, 2012 and the financial status of SARA as of the end of the fiscal year, June 30, 2012. The financial statements are intended to provide relevant financial information to the public, investors, rating agencies, insurers, and other interested parties. The financial statements provide particularly relevant information in this transition year.

The auditor's report on Internal Control and Compliance identified a "material weakness" in internal controls over financial reporting and preparation of the financial statements for both the Agency and SARA. This material weakness is directly related to the significant reduction in Agency staffing resources which started in 2010 due to the economic recession and the impact on tax increment revenues. Additionally, calendar year 2012 has been one of significant transition as the City has worked to develop proper staffing levels and staffing expertise to ensure the orderly "wind-down" of the former Agency's financial affairs. The transition process will continue over the balance of the fiscal year with an expectation that most or all of the financial operations, including financial reporting will be transferred to the City's Finance Department by the end of the current fiscal year.

### **EVALUATION AND FOLLOW-UP**

No special follow-up is required for this action.

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### **PUBLIC OUTREACH/INTEREST**

The proposed action does not meet any of the criteria noted below for added outreach efforts. This staff report will be posted on the City's website and the financial statements are available on the City's website as well.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

### **COORDINATION**

This report has been prepared by the Finance Department in coordination with the SARA, and the City Attorney's Office.

### **CEQA**

Not a project, File No. PP10-69(a) Annual Reports

/s/  
JULIA H. COOPER  
Acting Director, Finance

/s/  
RICHARD A. KEIT  
Managing Director, SARA

1. Redevelopment Agency Financial Statements  
<http://www.sjredevelopment.org/Finance/Auditor/AuditorReport&FinStatements-RDA-070111-013112.pdf>
2. Successor Agency Financial Statements  
<http://www.sjredevelopment.org/Finance/Auditor/AuditorReport&FinStatements-SARA-020112-063012.pdf>

For questions please contact Julia H. Cooper, Acting Director of Finance at (408) 535-7001.

November 30, 2012

Vinod K. Sharma  
Director Finance Agency  
Santa Clara County  
70 West Hedding Street, East Wing, 2<sup>nd</sup> Floor  
San Jose, CA 95110

Subject: Notification of Insufficiency of Funds

Dear Mr. Sharma:

Pursuant to Redevelopment Law ABX1 26, Section 34183 (b), the Successor Agency to the Redevelopment Agency of the City of San Jose ("Successor Agency") submits this letter to notify the County of Santa Clara Auditor Controller that the total amount available to the Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF) allocation funds are insufficient to meet the payment obligations as identified on the ROPS III, for the period covering January 1 through June 30, 2013. This includes the forecasted beginning cash balance as of January 1, 2013 and all other sources of revenue that will become available in this reporting period. The projected deficit, as forecasted on the attached Insufficiency of Funds worksheet is \$5,885,058.

Please call me or Abraham Andrade, Chief Financial Officer, to discuss the attached worksheet at your convenience at 408-795-1849 or 408-795-1821, respectively.

Sincerely,



Richard A. Keit  
Managing Director

Attachment

cc: Debra Figone

Successor Agency to the Redevelopment Agency of the City of San Jose  
 Insufficiency of Funds Worksheet  
 For the Period January 1 through June 30, 2013

	<u>TOTALS</u>
Beginning Cash Balance as of January 1, 2013 (Forecast)	
Unrestricted Cash & Investments (Forecast)	\$ 2,773,000
Cash with Fiscal Agent - for Future Debt Service Payments	<u>                    -</u>
Total Cash on Hand as of January 1, 2013 (Forecast)	\$ 2,773,000
Cash Inflows	
RPTTF Beginning Fund Balance (Per County Controller-Treasurer)	\$ 796,236
Secured and Unsecured Property Tax Increment	84,518,499
Supplemental & Unitary Property Tax Increment	<u>1,325,625</u>
Sub-Total RPTTF Available Balance	86,640,360
Less: Administrative Fees to County Auditor-Controller	92,940
Less: SB2557 Administrative Fees	1,100,000
Less: AB1290	<u>692,150</u>
Total Property Tax Distribution to Successor Agency from RPTTF on January 2, 2013	\$ 84,755,270
Other Sources/Income	
Bond Proceeds	697,700
Grant Funds	3,491,507
HUD 108 Loan Repayment Escrow Funds	<u>8,399</u>
Total Cash Inflows	\$ 4,197,606
Total Available Cash	\$ 91,725,876
Cash Outflows (Per ROPS III RPTTF Eligible Obligations):	
Debt Service Payments/Fiscal Agent Fees - Senior Tax Allocation Bonds	\$ 39,418,614
Reserve for Senior Tax Allocation Bonds - Aug 1, 2013 DS Payments	27,550,346
Debt Service Payments - Variable Rate Bonds	3,827,400
Fiscal Agent Fees/Remarketing Fees/Letter of Credit Fees - Variable Rate Bonds	1,344,772
Debt Service Payments/Fiscal Agent Fees - Housing Tax Allocation Bonds	7,448,700
Reserve for Housing Tax Allocation Bonds - Aug 1, 2013 DS Payments	2,400,673
Debt Service - Commercial Paper	300,000
Debt Service/Fiscal Agent Fees - Fourth & San Fernando Street Parking Facility Bonds	1,683,617
Debt Service/Fiscal Agent Fees - Convention Center Bonds	2,996,750
State of California - ERAF Loan Repayments	2,246,528
HUD Section 108 - Loan Repayments	131,601
Bond Logistics	50,000
Legally Binding & Enforceable Obligations	2,535,877
Admin Cost (Allowable for RPTTF Distribution for ROPS III)	<u>1,478,450</u>
Total Cash Outflows (ROPS III as Approved Per State DOF)	\$ 93,413,328
Other Cash Outflows (ROPS III - Other Funding Source):	
North San Pedro Housing Project - Per State Grant Fund	\$ 3,491,507
North San Pedro Housing Project - Use of Bond Proceeds	697,700
HUD Section 108 - (Masson/Dr. Eu/Security) Interest Payment	<u>8,399</u>
Total Cash Outflows	\$ 97,610,934
<b>Insufficiency of Funds (Projected Deficit with Admin Cost)</b>	<b>\$ (5,885,058)</b>