

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

MEMORANDUM

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| TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE | FROM: HARRY S. MAVROGENES EXECUTIVE DIRECTOR |
| SUBJECT: FINANCIAL STATEMENTS - JUNE 2008 (PRELIMINARY) | DATE: AUGUST 14, 2008 |

RECOMMENDATION

Accept the Financial Statements for June 2008 (Preliminary).

BACKGROUND

Governmental fund financial statements focus on the current financial condition, with particular emphasis on inflows and outflows of spendable resources. Information provided is useful for budgetary and financial decision making by identifying items such as proceeds from long-term debt, construction and other capital outlays, as well as debt service principal payments. The basic financial statements attached are interim in nature and do not report on some items that appear in the government-wide statement of activities in the Comprehensive Annual Financial Report issued at the close of the fiscal year. Examples of items not included in interim reports are depreciation, amortization of debt-related premiums, discounts and debt issuance costs.

These financial statements generally follow the fund financial statement format used in the Comprehensive Annual Financial Report (CAFR). They are organized and operated on the basis of funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and expenses are recognized when they are measurable and available/obligated. Due to the accrual method of accounting there will be differences between the financial statements and the Cash Flow Projection that accompanies this report. The Cash Flow Projection is a report on actual cash transactions that may vary from accrual transactions contained in the Financial Statement report.

The annual financial and compliance audit performed by Macias, Gini and O'Connell, LLP has commenced and, therefore, the ending fund balances contained in the attached reports are preliminary and subject to change as the year-end close process begins. The final report for Fiscal Year 2007-08 will be presented to this Committee upon completion of the audit this fall.

BALANCE SHEET:

The governmental fund balance sheet (Attachment A) reports financial assets associated with governmental activities. Financial assets are those items such as cash and other assets that will eventually convert to cash, such as receivables and investments. Capital assets are not included because they will be used in operations and therefore are not spendable. Similarly, liabilities are reported only to the extent that they affect the government's current financial position. For example, governments do not provide resources for debt service payments until payment is due. Therefore, liabilities would not be recognized for either principal or interest payments relating to long-term debt.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE:

The governmental fund statement of revenues, expenditures and changes in fund balances (Attachment B) is used to report all transactions, events and interfund activity that increases or decreases the fund balance in the reporting period. Agency funding is primarily derived from tax increment revenue and bond proceeds. Other revenue sources from secondary activities include: the sale of Agency-owned properties, developer payments, commercial and residential rent payments, parking facility payments, special permit fees and other miscellaneous activities.

LONG TERM DEBT AND FIXED ASSETS EXHIBITS:

Outstanding long-term debt and fixed assets as of June 2008 (Preliminary) are reported on Attachments C and D, respectively.

ANALYSIS

BALANCE SHEET (Attachment A):

ASSETS:

The attached report shows combined asset accounts in the amount of \$305.4 million increased by \$18.7 million for the month of June.

Cash increased by a net amount of \$8.8 million to \$156.6 million as of June 30, 2008. Significant cash transactions are discussed in greater detail in the accompanying Cash Flow Projection.

Restricted Assets decreased by a net amount of \$6.9 million. In June, \$17.4 million of tax increment receipts were transferred to the bond trustee and were part of the \$23.3 million of tax increment funds subsequently returned as they exceeded the amount required for the August 1 semi-annual debt service payment. Other decreases to the Restricted Asset accounts were associated with the variable rate bonds.

The Other Receivable asset account increased \$6.8 million and is associated with the recognition of Adobe's agreement to purchase a parcel of land underneath the Adobe office complex towers, specifically, the Phase One (345 Park Avenue). This transaction was described in further detail in the Sale of Adobe Ground Lease Information Memo circulated to the Agency Board on July 25, 2008. The actual sale transaction date was July 24, 2008.

The Loan Receivable line increased by a net amount of \$6.6 million, attributable to the recording of an \$8.2 million loan, representing the Agency's contribution for Improvement Assistance in the Miraido Housing project. Although the project was completed in 1999, the Agency's contribution was previously expensed pending the developer's ability to repay the loan from the cash flow generated by the project. Now that the project is generating a positive cash flow, the developer will commence payments on the loan. As part of its fiscal year-end closing activity, Agency staff reviewed its loan portfolio and based on the probability of repayments on the outstanding loan balance, increased the allowance for uncollectible loans by \$1.4 million. All loans remain in active status, however the repayment of several of the loans is contingent upon the projects generating a positive cash flow. Agency staff continues to monitor the loans and the borrowers' ability to repay based on the receipt of financial statements and reports, as required by the various loan documents and development agreements.

The Accrued Interest (income) line item, increased by \$2.8 million as year-end adjustments of \$1.3 million of interest accrued on funds invested as part of the City's investment pool and \$1.5 million was recognized as the amount of accrued interest on the Miraido loan referenced in the paragraph above.

LIABILITIES AND FUND BALANCES:

Combined liability accounts increased by a net amount of \$23.9 million. Contributing to the net change is an increase of \$10.0 million in the Due to the County of Santa Clara line (\$7.5 million County Settlement and \$2.5 million Pass Through associated with the portion of current month tax increment receipts due to the County). The \$9.7 million increase in the Deferred Revenue line is an adjustment associated with Miraido DDA transaction discussed above. The Due to the City of San Jose line increased by \$2.9 million based on several outstanding payments that were not completed and therefore cash was not transferred by June 30, 2008. The largest payment is associated with the Fire Station #2 Rebuild project (\$2.7 million). The Accounts Payable line increased by \$2.2 million representing the large number of various transactions that were expensed and reported in June and cash was actually released in July. The Due to Other Governmental Agencies line increased by \$800,000 for FY 07-08 AB1290 obligations.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (Income Statement - Attachment B):

REVENUES AND OTHER FINANCING SOURCES:

June revenues were \$24.9 million. The most significant item was \$21.8 million of tax increment. The other large item was \$1.4 million of accrued interest.

EXPENDITURES AND OTHER FINANCING USES:

June expenditures were \$36.4 million.

The most significant item was \$19.7 million for various capital projects that are described in greater detail by project area and budget line item in the accompanying Capital Cost Report.

Additionally, payments to the County of Santa Clara amounted to \$10.0 million and included \$7.5 million that was accrued as payable on July 1 representing the second of three payments scheduled as part of the settlement agreement negotiated

in November 2006. The remaining \$2.5 million represents the County's share of June tax increment receipts. These amounts are routinely accumulated throughout the fiscal year for payment at a later date.

Payments to the City of San Jose of \$7.9 million included: \$4.4 million representing housing set-aside funds associated with June tax increment; \$3.5 million of reimbursements to the City for services provided to the Agency.

FUND BALANCE:

As a result of June activity, the Agency's preliminary fund balance as of June 30, 2008, was \$222.1 million, a decrease of \$5.1 million from the May 2008 statements.


HARRY S. MAVROGENES
Executive Director

Attachments

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Balance Sheet
Governmental Funds
June 30, 2008

| | Special Revenue | | Debt Service | | Capital Projects | Total | Prev Month | Change |
|---|---------------------|-----------------|---------------------|----------------------|-----------------------|-----------------------|-----------------------|--------------------|
| | General | Special Revenue | Housing | Merged | | | | |
| ASSETS | | | | | | | | |
| Cash and investments | \$ 7,241,106 | \$ - | \$ - | \$ - | \$ 149,324,785 | \$ 156,565,891 | \$ 147,688,306 | 8,877,585 |
| Receivables: | | | | | | | | |
| Tax increment | - | - | - | - | 39,628 | 39,628 | - | 39,628 |
| Accrued interest | - | - | - | - | 5,341,140 | 5,341,140 | 2,559,881 | 2,781,259 |
| Due from other funds | - | 7,926 | - | - | - | 7,926 | - | 7,926 |
| Due from the City of San Jose | 219,140 | - | - | - | - | 219,140 | 70,173 | 148,967 |
| Other/Prepaid Expense | 293,897 | - | - | - | 6,866,313 | 7,160,210 | 334,462 | 6,825,748 |
| Loans receivable, net | - | - | - | - | 38,004,401 | 38,004,401 | 31,370,410 | 6,633,991 |
| Deposits | - | - | - | - | 601,162 | 601,162 | 351,162 | 250,000 |
| Restricted assets: | | | | | | | | |
| Cash and investments | - | - | 2,902,082 | 89,875,068 | 4,659,298 | 97,436,448 | 104,289,580 | (6,853,132) |
| TOTAL ASSETS | \$ 7,754,143 | \$ 7,926 | \$ 2,902,082 | \$ 89,875,068 | \$ 204,836,728 | \$ 305,375,946 | \$ 286,663,975 | 18,711,972 |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 764,717 | \$ - | \$ 160,218 | \$ - | \$ 2,825,715 | \$ 3,750,650 | \$ 1,567,719 | 2,182,931 |
| Deferred revenue/Restricted Cash Offset | \$ - | \$ - | \$ - | \$ - | 42,381,352 | 42,381,352 | 34,112,793 | 8,268,559 |
| Due to the City of San Jose | 207,162 | 7,926 | - | - | 3,226,846 | 3,441,933 | 457,642 | 2,984,292 |
| Due to the County of Santa Clara | - | - | - | - | 22,837,113 | 22,837,113 | 12,885,461 | 9,951,652 |
| Due to Other Govt'l Agencies | - | - | - | - | 928,913 | 928,913 | 108,969 | 819,944 |
| Deposits, retentions, and other payables | 4,835 | - | - | - | 9,931,206 | 9,936,041 | 10,229,833 | (293,792) |
| Due to other funds | - | - | - | - | 7,926 | 7,926 | - | 7,926 |
| Payable from restricted assets: | | | | | | | | |
| Total liabilities | 976,714 | 7,926 | 160,218 | - | 82,139,070 | 83,283,928 | 59,362,416 | 23,921,512 |
| Fund balances: | | | | | | | | |
| Reserved for: | | | | | | | | |
| Long-term receivables | 288,716 | - | - | - | 4,421,781 | 4,710,497 | 4,726,606 | (16,108) |
| Advances and deposits | - | - | - | - | - | - | - | - |
| Debt service | - | - | - | 89,875,068 | - | 89,875,068 | 96,734,386 | (6,859,318) |
| Low and moderate income housing activities | - | - | 2,741,864 | - | - | 2,741,864 | 2,865,831 | (123,967) |
| Encumbrances | 150,879 | - | - | - | 29,047,061 | 29,197,940 | 28,267,291 | 930,649 |
| Unres., Designated-Redevelopment Activities | 6,337,834 | - | - | - | 89,228,818 | 95,566,652 | 94,707,446 | 859,205 |
| Total fund balances | 6,777,429 | - | 2,741,864 | 89,875,068 | 122,697,660 | 222,092,021 | 227,301,561 | (5,209,540) |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 7,754,143 | \$ 7,926 | \$ 2,902,082 | \$ 89,875,068 | \$ 204,836,730 | \$ 305,375,948 | \$ 286,663,976 | 18,711,971 |

Attachment B

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Period Ended June 30, 2008

| | General | Special Revenue | | Debt Service | | Capital Projects | Total | Previous Month | Change |
|--|---------------------|-------------------|---------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|--------|
| | | Revenue | Housing | Merged | Projects | | | | |
| REVENUES | | | | | | | | | |
| Tax increment | \$ - | \$ 36,988,410 | \$ - | \$ 103,175,115 | \$ 44,778,524 | \$ 184,942,049 | 163,159,849 | 21,782,199 | |
| Intergovernmental | - | - | 18,647,376 | - | 3,087,569 | 21,734,945 | 21,210,174 | 524,771 | |
| Investment income | 195,773 | - | 707,017 | 1,878,446 | 6,475,886 | 9,257,121 | 7,838,330 | 1,418,792 | |
| Developer contributions | - | - | - | - | 200,000 | 200,000 | 150,000 | 50,000 | |
| Grant revenue | - | - | - | - | 1,337,306 | 1,337,306 | 1,337,306 | - | |
| Rent | 619,672 | - | - | - | 1,214,485 | 1,834,157 | 1,706,668 | 127,489 | |
| Other | 218,361 | - | - | - | 12,772,746 | 12,991,107 | 11,986,501 | 1,004,606 | |
| Total revenues | 1,033,806 | 36,988,410 | 19,354,393 | 105,053,560 | 69,866,516 | 232,296,685 | 207,388,828 | 24,907,858 | |
| EXPENDITURES | | | | | | | | | |
| General government | 7,026,355 | - | - | - | - | 7,026,355 | 6,422,312 | 604,043 | |
| Intergovernmental: | | | | | | | | | |
| Payments to the City of San Jose | - | 36,988,410 | 13,854,200 | - | 341,175 | 51,183,785 | 46,827,345 | 4,356,440 | |
| Capital outlay: | | | | | | | | | |
| Project expenditures | - | - | - | - | 65,861,415 | 65,861,415 | 49,648,876 | 16,212,538 | |
| Payments to the City of San Jose | - | - | - | - | 14,332,001 | 14,332,001 | 10,750,629 | 3,581,372 | |
| Payments to the County of Santa Clara | - | - | - | - | 67,413,478 | 67,413,478 | 57,461,826 | 9,951,652 | |
| Payments to Other Governmental Agencies | - | - | - | - | 819,944 | 819,944 | - | 819,944 | |
| Debt service: | | | | | | | | | |
| Principal repayment | - | - | 6,720,000 | 32,465,000 | - | 39,185,000 | 39,185,000 | - | |
| Interest and fiscal charges | - | - | 12,153,589 | 87,367,168 | 10,878,405 | 110,399,161 | 109,478,365 | 920,797 | |
| Bond issuance costs | - | - | - | 3,305,752 | - | 3,305,752 | 3,305,752 | - | |
| Total expenditures | 7,026,355 | 36,988,410 | 32,727,788 | 123,137,920 | 159,646,418 | 359,526,891 | 323,080,105 | 36,446,786 | |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | (5,992,549) | - | (13,373,395) | (18,084,360) | (89,779,902) | (127,230,206) | (115,691,278) | (11,538,928) | |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | |
| Tax allocation bonds issued | - | - | - | 12,930,000 | 200,000,000 | 212,930,000 | 212,930,000 | - | |
| Premium on tax allocation bonds | - | - | - | 1,128,709 | - | 1,128,709 | 1,128,709 | - | |
| Sales of capital assets | - | - | - | - | 6,801,560 | 6,801,560 | - | 6,801,560 | |
| Transfers in | 11,003,325 | - | - | 21,262,124 | 1,764,569 | 34,030,018 | 34,663,188 | (633,169) | |
| Transfers out | - | - | - | (861,296) | (33,516,265) | (34,377,562) | (34,651,220) | 273,658 | |
| Total other financing sources (uses) | 11,003,325 | - | - | 34,459,537 | 175,049,863 | 220,512,724 | 214,070,675 | 6,442,049 | |
| CHANGE IN FUND BALANCES | 5,010,776 | - | (13,373,395) | 16,375,177 | 85,269,961 | 93,282,518 | 98,379,397 | (5,096,880) | |
| FUND BALANCE - 6/30/2007 | 1,766,653 | - | 16,115,260 | 73,499,891 | 37,427,698 | 128,809,502 | 128,809,502 | - | |
| FUND BALANCE - 6/30/2008P | \$ 6,777,429 | \$ - | \$ 2,741,864 | \$ 89,875,069 | \$ 122,697,659 | \$ 222,092,021 | \$ 227,188,900 | \$ (5,096,880) | |

Redevelopment Agency of the City of San Jose
Financial Statements - Outstanding Long Term Debt

| | Beginning Balance 5/31/2008 | Principal Monthly Activity | Current Balance 6/30/2008 |
|--|--------------------------------|----------------------------------|------------------------------|
| TAX ALLOCATION BONDS | | | |
| 1993 Merged Area Refunding | 71,970,000 | 0 | 71,970,000 |
| 1997 Housing Series E | 17,045,000 | 0 | 17,045,000 |
| 1997 Merged | 6,940,000 | 0 | 6,940,000 |
| 1998 Merged | 2,050,000 | 0 | 2,050,000 |
| 1999 Merged | 12,920,000 | 0 | 12,920,000 |
| 2002 Merged | 22,565,000 | 0 | 22,565,000 |
| 2003 Housing Series J | 45,640,000 | 0 | 45,640,000 |
| 2003 Housing Series K | 10,010,000 | 0 | 10,010,000 |
| 2003 Merged | 127,545,000 | 0 | 127,545,000 |
| 2004 Merged Refunding | 257,885,000 | 0 | 257,885,000 |
| 2005 Housing Series A | 10,445,000 | 0 | 10,445,000 |
| 2005 Housing Series B | 116,765,000 | 0 | 116,765,000 |
| 2005 Housing Series C | 31,385,000 | 0 | 31,385,000 |
| 2005 Housing Series D | 31,385,000 | 0 | 31,385,000 |
| 2005 Merged Refunding Series A | 152,840,000 | 0 | 152,840,000 |
| 2005 Merged Refunding Series B | 67,130,000 | 0 | 67,130,000 |
| 2006 Merged Series A-T | 13,300,000 | 0 | 13,300,000 |
| 2006 Merged Series B | 67,000,000 | 0 | 67,000,000 |
| 2006 Merged Refunding Series C | 423,430,000 | 0 | 423,430,000 |
| 2006 Merged Refunding Series D | 277,755,000 | 0 | 277,755,000 |
| 2007 Merged Refunding Series A-T | 21,330,000 | 0 | 21,330,000 |
| 2007 Merged Refunding Series B | 191,600,000 | 0 | 191,600,000 |
| Total Tax Allocation Bonds | 1,978,935,000 | 0 | 1,978,935,000 |
| OTHER LONG TERM DEBT | | | |
| 1996 Merged Series A & B | 53,200,000 | 0 | 53,200,000 |
| 2003 Merged Revenue Series A & B | 57,800,000 | 0 | 57,800,000 |
| 4th Street Parking Revenue, Series 2001A | 39,740,000 | 0 | 39,740,000 |
| 2001 Convention Center Series F & G | 160,070,000 | 0 | 160,070,000 |
| Note Payable HUD 108 | 34,220,000 | 0 | 34,220,000 |
| ERAF Loan | 26,619,500 | 0 | 26,619,500 |
| Parking Fund Loan | 6,800,000 | 0 | 6,800,000 |
| Compensated Absence Liability | 1,235,757 | 287,302 | 1,523,059 |
| Total Other Long Term Debt | 379,685,257 | 287,302 | 379,972,559 |
| TOTAL LONG TERM DEBT | 2,358,620,257 | 287,302 | 2,358,907,559 |

San Jose Redevelopment Agency
Financial Statements - Fixed Assets

| | Beginning Balance 5/31/2008 | Monthly Activity | Current Balance 6/30/2008 |
|---------------------------------|--|-----------------------------|--------------------------------------|
| Land | 160,416,271 | 469,358 | 160,885,628 |
| Buildings & Public Improvements | 171,447,934 | 20,871,402 | 192,319,337 |
| Leasehold Improvements | 1,888,250 | | 1,888,250 |
| Construction in Progress | 2,783,478 | (517,900) | 2,265,578 |
| Equipment | 1,084,836 | 60,121 | 1,144,957 |
| Total | <u>337,620,769</u> | <u>20,882,981</u> | <u>358,503,750</u> |